



High Level Business Requirements Child Maintenance Payment Changes

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3. Glossary of terms

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| BACS | Bank Automated Clearing System |
| CMED | Child Maintenance Enforcement Division (Northern Ireland) |
| Commission | Child Maintenance and Enforcement Commission |
| CSA | Child Support Agency |
| DACT | Detailed Automatic Credit Transfer |
| DEO | Deduction from Earnings Order |
| DER | Deduction from Earnings Request |
| HMRC | Her Majesty's Revenue and Customs |
| MOD | Ministry of Defence |
| NDR | Normal Deduction Rate |
| NRP | Non-resident parent |
| PEP | Protected Earnings Proportion |
| UK | United Kingdom |

4. Purpose

The purpose of this document is to outline the High Level Business Requirements that the Child Maintenance and Enforcement Commission (referred to as 'the Commission') wishes to implement in conjunction with the United Kingdom's payroll software developer community, in relation to the introduction of the new statutory child maintenance scheme from 2012.

This requirement will also be used by the Child Maintenance and Enforcement Division (CMED) which performs similar functions to the Commission in Northern Ireland. As such, unless explicitly stated, all statements referring to the Commission made within this document apply equally to CMED.

Please note that all references to Deduction from Earnings Orders (DEO) also relate to Deduction from Earnings Requests (DER) made in relation to the Ministry of Defence, unless specifically stated as not applying (e.g. the Protected Earnings Proportion).

Please also note that this document contains information about:

- DEOs currently issued by the Child Support Agency, which operates the current statutory schemes; these are referred to as DEOs under the 1993 scheme and the 2003 scheme
- DEOs to be issued under the new child maintenance scheme (the "new scheme")

Flexibility is the key to the approach. The Commission will support employers as cases on the existing statutory child maintenance schemes (1993 and 2003 schemes) close and the new child maintenance scheme is introduced. The approach will allow and support employers to continue to implement DEOs which have been issued under the 1993 and 2003 schemes alongside DEOs issued under the new scheme whilst following the new payment procedure that will be introduced. An employer will only have one ongoing DEO for child maintenance for any one employee at any time.

Although the Commission does not expect any fundamental changes to the High Level Business Requirements outlined here, it is important to note that these requirements are currently only proposals that have yet to be formally consulted on. They may be subject to further changes.

5. Scope of requirement

5.1. The Commission is requesting that the payroll software community implement the following requirements

- Support the running of DEOs with either protected earnings expressed as:
 - a percentage (applicable for Deduction of Earnings Orders issued under the new scheme)
 - an amount (applicable for Deduction of Earnings Orders issued under the 1993 and 2003 schemes)

- Support DEOs that specify the amount to be deducted aligned to the pay frequency of the employee and DEOs that specify the amount to be deducted as a monthly amount with the equivalent weekly, two weekly and four weekly amounts to be deducted
- The production of summary payment schedules, dependent on pay frequency
- The capturing and reporting of reasons for authorised underpayment of DEOs
- The introduction of Employer Reference Numbers at a PAYE organisation level
- The introduction of Employer Reference Numbers at an employee level
- Support the addition of a bank account to which payments from DEOs are to be made to under the new scheme
- Support the addition of a postal address that DEO payment schedule reports should be dispatched to under the new scheme
- Request to amend previously published DEO reporting requirements and timescales
- Removal of Detailed Automatic Credit Transfer (DACT) as a payment method for employers once they have employees with DEOs under the new scheme
- Amendment of the standard DEO schedule report format
- The report of DEO information will cover all of the separate child maintenance schemes that will be in operation:
 - the existing (1993 and 2003) schemes via the CSA; and
 - the new child maintenance scheme

5.2. Out of scope:

- Amendments to DEOs issued on the existing (1993 and 2003) schemes

6. Timescales

The Commission requests that these changes are implemented for the software financial year 2012/13, although this functionality will not be required until later in the 2012 calendar year.

7. Detailed Requirements

The Commission is requesting that the payroll software community implement the following detailed requirements.

7.1. Supporting DEOs

Support the issue of DEOs that either

- specify an amount (a pound value); or
- specify protected earnings as a percentage of the employee's net earnings.

Support the issue of DEOs that either

- specify the amount to be deducted aligned to the pay frequency of the employee; or
- specify the amount to be deducted as a monthly amount with the equivalent weekly, two weekly and four weekly amounts to be shown.

The CSA currently calculates protected earnings from the net earnings information that has been used to determine maintenance liability. Details of the protected amount are provided to employers and non-resident parents. Under the new scheme, the employer will be required to protect a percentage amount of the employee's net earnings. This percentage will be provided by the Commission. There is no change to the definition of net earnings:

Regulations 8(3), 8(4) and 8(5) of the Child Support (Collection and Enforcement) Regulations 1992 and the Child Support (Collection and Enforcement) (Northern Ireland) Regulations 1992 define earnings for the purposes of DEOs.

“earnings” are any sums payable to a person –

- by way of wages or salary (including any fees, bonus, commission, overtime pay or other emoluments payable in addition to wages or salary or payable under a contract of service);
- by way of pension (including an annuity in respect of past service, whether or not rendered to the person paying the annuity, and including periodical payments by way of compensation for the loss, abolition or relinquishment, or diminution in the emoluments, of any office or employment);
- by way of statutory sick pay.

“Earnings” shall not include –

- sums payable by any public department of a territory outside the United Kingdom;
- pay or allowances payable to the liable person as a member of Her Majesty's forces other than pay or allowances payable by his employer to him as a special member of a reserve force (within the meaning of the Reserve Forces Act)
- pension, allowances or benefit payable under any enactment relating to social security;
- pension or allowances payable in respect of disablement or disability;

- guaranteed minimum pension within the meaning of the Social Security Pensions Act 1975 (or the meaning of the Social Security Pensions (Northern Ireland) Order 1975 provided by an occupational scheme);
- working tax credit payable under section 10 of the Tax Credits Act 2002

Net earnings for the purposes of DEOs are specified in legislation. The legislation remains unchanged:

- income tax
- primary class 1 contributions under Part 1 of the Contributions and Benefits Act 1992 (or the Social Security Contributions and Benefits (Northern Ireland) Act 1992);
- amounts deductible by way of contributions to a superannuation scheme which provides for the payment of annuities or lump sums –
 - (i) to the employee on his retirement at a specified age or on becoming incapacitated at some earlier age; or
 - (ii) on his death or otherwise to his personal representative, widow, surviving civil partner relatives or dependents.

NB. This current definition of “earnings” and “net earnings” for the purposes of a DEO is unchanged.

In summary:

Deductions under a DEO can only be made from the following types of earnings:

- wages, fees, bonus, commission, overtime pay or any payments on top of wages
- private or occupational pensions, and compensation payments
- Statutory Sick Pay
- contractual sick pay
- contractual maternity pay (not Statutory Maternity Pay)
- contractual paternity pay (not Statutory Paternity Pay)
- contractual adoption pay (not Statutory Adoption Pay)
- contractual redundancy pay (not Statutory Redundancy Pay).

Statutory pay is money that employees are entitled to by law. Contractual pay is pay that employers agree with their employees over and above statutory pay. If the employee is only receiving statutory maternity, paternity or adoption pay, they cannot pay child maintenance by a DEO. However, once they return to work or if they are receiving any contractual maternity, paternity or adoption pay, they may choose to, or be required to, pay by DEO.

Protected Earnings and Normal Deduction Rates

The Protected Earnings Proportion on new scheme DEOs will be expressed as a percentage instead of an amount and this percentage will be 60% of non-resident parent’s net earnings. (Note - The Protected Earnings Proportion will not apply to Deductions from Earnings Requests (DER) with the Ministry of Defence. Separate

armed forces legislation applies to 'protected income' for service personnel – i.e. the 'minimum drawing rate').

Employers will then be required to calculate the 60% figure based on the net earnings for the period in question, every time a deduction is made and protect that amount.

The Normal Deduction Rate i.e. the amount that should be deducted will continue to be expressed as an amount to be deducted, with equivalent values for employees paid weekly, two weekly or four weekly. The Normal Deduction Rate will no longer be specified as an amount aligned to the actual pay frequency of the employee. The employer will have to select the amount which aligns with the employee's pay frequency and if the employee is paid other than monthly, weekly, two weekly or four weekly, the employer will need to inform the Commission so that the DEO can be discharged.

An employer will only ever have one on-going DEO for child maintenance for any one employee.

Flexible implementation

The Commission requests that payroll software developers create the capability for employers to apply:

- a Protected Earnings Rate (under the 1993 scheme) and a Protected Earnings Proportion (under the 2003 scheme) expressed as an amount; and
- a Protected Earnings Proportion (for the new scheme) expressed as a percentage

The Commission also requests that payroll software developers create the capability for employers to switch between applying Protected Earnings expressed as an amount and a percentage (and vice versa), both at a company (global setting) and at an individual DEO level. This is to enable the maximum flexibility for employers to implement these changes, minimising any potential period where manual processing may need to take place.

7.2. Summary payment schedules

Employers have a legal obligation to ensure that monies payable under DEOs reach the Commission by 19th of the following calendar month e.g. by 19th November for deductions made in October.

In order to enable the effective processing of these monies the Commission is asking employers to provide a matching payment schedule report, which clearly displays the amount that has been paid for each employee and the dates that this relates to, displayed as Date From and Date To.

To allow for the processing of the schedules to take place, the Commission requests that the schedules are submitted from the 6th of each month to the following 5th of the month.

The Commission would like payroll software providers to produce summary reports for all the amounts deducted under DEOs taken from their employees' earnings, where they are processing more than one DEO. This report should cover all employees with a DEO irrespective of their payroll frequency e.g. monthly and weekly paid employees.

7.3. Reporting of reasons for under payments

The law provides a number of reasons for employers not to take the full amount due in a particular period for a DEO.

Where these circumstances apply the Commission requests that summary reports include the following information where the amount deducted from the net earnings of an employee is less than the Normal Deduction Rate amount:

- "01 Left Employment"
- "02 Statutory Sick Pay"
- "03 Statutory Maternity Pay"
- "04 Statutory Paternity Pay"
- "05 Protected Earnings"
- "06 NRP Change of Income"
- "07 Deceased"
- "10 Statutory Adoption Pay"
- "11 Add Stat Paternity Pay"
- "12 Multiple Reasons"
- "13 Redundancy"

In addition, for Deduction from Earnings Requests (Ministry of Defence only), the following should be included:

- "08 Min Drawing Rate (DER only)"
- "09 No Regular Pay (DER Only)"

7.4. Employer Reference Number

Under the new scheme all employers will be allocated a unique Employer Reference Number (a 12 digit numeric number). The Employer Reference Number will be used by the Commission to identify the specific employer and enable automated processing of the payment and associated payment schedule.

The Commission therefore requests that all payroll software suppliers enable the storage of this information against the employer (defined as a unique PAYE organisation) within their systems.

The Employer Reference Number will be communicated to employers as part of their introduction to the new scheme and should be stated when making payments e.g. written on cheques or entered in the reference field 10 for Bank Automated Clearing System (BACS) payments. This will be used by the Commission to allocate funds to

the relevant Employer Account as part of payment processing. This 12 digit number will not vary and will be unique to each employer.

This number will always start with the following two digits:

- 50 – for an employer e.g. **501111111111**
- 51 – for an agent (accountant / payroll bureau) e.g. **510000000000**

All DEOs under the 1993 and 2003 schemes remain unaffected.

7.5. Employee Reference Number

The Commission will be also be introducing a unique reference number for each, employee who is subject to a DEO under the new scheme. In order to improve the processing of payments the Commission requests that payroll software developers introduce the ability to capture and report on this reference number at an Attachment level.

The format of this reference number will be 12 digits e.g. 111111111111.

All 1993 and 2003 scheme DEOs issued by the CSA remain unaffected.

7.6. New child maintenance scheme bank account

An employer will need to make payments to this bank account when they have received their first DEO under the new child maintenance scheme. At this point all payments under DEOs should be made to this new bank account. Until an employer has received a DEO under the new scheme all payments should continue to be made to the current CSA bank account. This will ensure that employers only use one bank account into which to make payments. The Commission will ensure that DEOs made under the new scheme will be clearly identified

Details of the new bank account will be published in 2012.

7.7. Changes in postal address for schedule reports

With the introduction of the new child maintenance scheme a new postal address to send payment schedule reports to will be introduced.

An employer will need to start sending their payment schedule reports to this one address. They will be asked to move to this address when they get their first DEO under the new scheme.

Notifications sent to employers will clearly indicate whether a DEO has been issued in relation to a case on the 1993, 2003 or new scheme.

7.8. Amendments to previously published DEO reporting requirements and timescales

In June 2010 the Commission published a standard report format and requested that all UK payroll software developers adopted this from April 2011.

Report contents

When employers take collections from employees in response to DEO notifications, the employer completes and sends a report or schedule listing details of all the collections made in the given period.

A number of amendments to the content of the report previously published are requested:

- Your Reference Number – this field should be removed from the report
- Frequency – this field should be removed from the report
- Total amount paid – this field is moved from the body of the report to the header information, in Company level information
- CSA Reference Number field now becomes “Employee’s Reference Number” – this 14 character field should now be used to display the Employee Reference Number (see section 7.5) in addition to the Employee Personal Identifier (CSA) or NST Reference Number.
- An additional field should be added per employee, “Monthly Amount Due (£)” which should display the monthly amount to be sent to the Commission and also the normal deduction rate per month, one, two or four weekly period which the employer has selected from the options provided on the DEOs to align with the employee’s pay frequency..
- Changes to reason codes – four additional reason codes have been added to the previously published list; “10 Statutory Adoption Pay”, “11 Add Stat Paternity Pay”, “12 Multiple Reasons” and “13 Redundancy”
- Amendment of reason code description “01 NRP has left employment” to “01 Left Employment”

Report headings

A number of amendments to the headings for each column of the report previously published are requested:

- “Company name” – should be changed to “Employer Name”
- Payment from date – should be changed to “Payment from”
- Payment to date – should be changed to “Payment to”
- “Total amount paid” – should be changed to “Total Amount Paid”
- “CSA Reference Number” – should be changed to “Employee’s Reference Number”
- “Amount Paid” – should be changed to “Actual Deduction (£)”
- “Reason” – should be changed to “Reason for Difference”

The Child Maintenance and Enforcement Commission is happy to accept this report in paper format if the development has already been completed.

Further information

For further information on this report format, a full schema and example file formats please visit www.childmaintenance.org/payrollsoftware/index.html

7.9. Removal of Detailed Automatic Credit Transfer

Once an employer has been issued with their first new scheme DEO, it is recommended that any future payment is made in bulk as one single payment for all employees supported by a schedule of individual deductions.

Bulk payments should be made via Banks Automated Clearing System (BACS) or Cheque into the new bank account.

Detailed Automatic Credit Transfer (DACT) can still be used by employers with no new scheme Deductions from Earnings Orders who continue to make payments to the existing bank account.

8. Further questions

Any questions relating to this document should be referred to:

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9. Appendix

9.1. Previous Report Format

The format of this report was previously specified in May 2010 (see www.childmaintenance.org/payrollsoftware/index.html) and implemented in April 2011 by the industry.

9.2. Reason Codes

The reason codes originally published are available at: www.childmaintenance.org/payrollsoftware/index.html