

***Policy Paper:***  
***SSAC Call for Evidence on Social Security & Separated Parents***

**Introduction**

This paper – combining responses from both the DWP and HMRC - provides information to support the Social Security Advisory Committee's (SSAC) call for evidence concerning the financial position of separated parents and the social security system.

This paper provides a contribution to the pool of evidence that SSAC is gathering on the living standards of parents who have separated and is intended to help inform further SSAC research. This response provides a current policy position that may inform future SSAC research on the following questions (as set out in SSAC's call for evidence):

- whether the tax and benefit system creates negative outcomes that undermine strategic social welfare objectives; and
- whether there is scope to redesign the social security system to mitigate the risks of negative outcomes in the future.

Where possible, this note also provides some pointers towards evidence on how living standards and well-being are affected by:

- Child Maintenance,
- Child Benefit,
- the legacy benefit system (e.g. Child Tax Credit, Housing Benefit and Working Tax Credit); and
- Universal Credit

**Evidence**

Responses against the key research questions raised by SSAC are outlined below.

***(1) How does the current tax and benefit system affect living standards and well-being of non-resident parents, resident parents and their children? This includes income and time spent with children and how people feel treated in the social security system.***

***(2) Are there any sub groups who are particularly affected by the tax and benefit system following separation? For example, type of benefit recipient, whether in work or out of work, shared care arrangements or protected characteristic, such as age?***

DWP suggest using the Household Below Average Income (HBAI) report<sup>1</sup> as a source for further modelling and analysis to build up more in-depth evidence in response to the above questions. In addition, the UK Household Longitudinal Study<sup>2</sup> may also be helpful to build a profile of household income rates among lone parents as well as separated parents who may have re-partnered with a second family.

For Child Maintenance Service (CMS) data, SSAC should refer to published statistics available online at the following address:

<https://www.gov.uk/government/collections/statistics-on-the-2012-statutory-child-maintenance-scheme>.

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<sup>1</sup> <https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201718>

<sup>2</sup> <https://www.understandingsociety.ac.uk>

The 2012 child maintenance reforms are intended to encourage collaboration and responsibility between separated parents in order to provide their children with support - whether financial or non-financial - to ensure they get a good start in life. Research shows that children have better outcomes when their parents work together. Child maintenance reforms are designed to: prioritise resources for the benefit of children; and strengthen enforcement and collection powers to ensure more money flows towards children, many of whom will be in poorer households.

Parents are now supported to collaborate and make family based arrangements (FBAs) where possible. The statutory system is a fall-back and not a default option. The statutory scheme is accessed through the 'gateway' of the *Child Maintenance Options* website and is underpinned by a fee-based approach to drive the desired collaborative client behaviour.

Receiving Parents<sup>3</sup> who are also benefit claimants are no longer obliged to apply to the Child Maintenance Scheme (as they were pre-2008). They no longer have their maintenance taken into account when receiving income-related benefits or tax credits, so are able to keep all the maintenance received.

Fees and charges have been introduced to encourage parents to work together to decide how they will provide for their children. The application fee is set at £20, which is intended to prompt parents to pause and think about their child maintenance options (victims of domestic abuse or those under 19 are exempt from the application fee).

If either parent decides to apply to the Child Maintenance service (CMS), cases are managed in one of two 'service types': *Direct Pay or Collect and Pay*. In *Direct Pay*, the CMS provides a calculation and a payment schedule, but payments are arranged privately between the clients. There is no on-going collection fee for either client.

Where both parents choose or the Paying Parent<sup>4</sup> is found to be unlikely to comply with *Direct Pay*, they can access the *Collect and Pay* service. The Paying Parent makes payments to the CMS who pass that money on to the Receiving Parent. Both parents are charged a collection fee (20% for the Paying Parent and 4% for the Receiving Parent) for this service, which is intended as an incentive to collaborate. CMS often has to take additional enforcement actions to help to secure payments in these cases – for which there are further charges depending on the action taken.

The reformed child maintenance system also now incorporates a more efficient and simplified calculation process using HMRC data, which no longer takes into account every aspect of an individual's circumstances and doesn't rely on self-disclosure.

The child maintenance system can help address child poverty. By promoting collaboration and parental responsibility; and facilitating effective arrangements for payment of maintenance, including enforcement where needed. The child maintenance system is designed to boost household income for lone parents – who may be more likely to have incomes below the poverty threshold – but its poverty reduction impacts are limited as the system does not cover children whose parents have not separated.

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<sup>3</sup> Receiving Parent: the parent who lives with their child most of the time. The parent with care who is entitled to receive child maintenance.

<sup>4</sup> Paying Parent: the parent who does not live with their child most of the time. The child's other parent who is required to pay child maintenance.

Since the establishment of the Child Maintenance Service in 2012, the amount of maintenance collected and numbers of children covered, is steadily growing. The statutory child maintenance scheme is working well for those parents who need state support, and we continue to see more parents applying to the CMS: 655,000 children are now supported by a CMS arrangement. Also, compliance within the Collect and Pay service is increasing; rising by six percentage points between the quarter ending September 2017 and the quarter ending September 2018.<sup>5</sup>

Data<sup>6</sup> shows that children in workless intact families are three times more likely to experience relationship distress, potentially damaging to children than those in intact families where both parents are working. Where parents are separated, analysis of the available data on frequency of contact shows that regular contact between the child and non-resident parent is a good indication of a better relationship between the parents. Around half of children in separated families see their non-resident parent regularly. This is why DWP is working with disadvantaged parents to reduce conflict in separated families as well as those where the parents are together, to improve outcomes for children. The *Reducing Parental Conflict programme* aims to decrease the number of children that have to live with damaging levels of parental conflict.

The Reducing Parental Conflict programme was announced in *'Improving Lives: Helping Workless Families'*, which was published in April 2017. As a devolved matter, the Programme runs in England only and aims to support local areas to integrate proven interventions to reduce parental conflict into mainstream services for children and families. This programme has a budget of up to £39 million. Almost all top tier local authorities in England have now accessed funding to increase their strategic capability in addressing parental conflict and to train front line practitioners to help them understand and identify relationship distress, provide initial support and to refer appropriately. The first services became available from April 2019.

SSAC may also want to note that HMRC will shortly publish<sup>7</sup> a quantitative survey of Child Benefit claimants that may provide some background data about single claimants (particularly with regard to how Child Benefit may impact upon household finances). The study will not directly cover well-being or living standards. HMRC will notify SSAC once the report has been published.

Previous studies of tax credits claimants, which included single claimants but did not directly cover well-being or living standards, can also be accessed via the following link:  
[Panel Study of tax credits customers: telephone survey 2014 - GOV.UK](#)

### **(3) *Is there any evidence of how this is changing under Universal Credit (UC)?***

Universal Credit is an in and out of work benefit. It is designed to remove the 'cliff-edges' that can 'bite' in legacy benefits, so that those who work see a tapered reduction in benefit and keep more of their earnings, meaning that 'work pays'.

Those who claim working tax credit are required to work at least 16 hours a week (more if the claimant has a partner or does not have a disability or children). Universal Credit entitlement is calculated according to income instead of the number of hours worked.

<sup>5</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/765799/child-maintenance-service-august-2013-to-september-2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/765799/child-maintenance-service-august-2013-to-september-2018.pdf)

<sup>6</sup> <https://www.gov.uk/government/statistics/parental-conflict-indicator-201112-to-201516>

<sup>7</sup> Now published:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/806165/Child\\_Benefit\\_Customer\\_Survey\\_-\\_HMRC\\_research\\_report\\_470.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/806165/Child_Benefit_Customer_Survey_-_HMRC_research_report_470.pdf)

Universal Credit has a single taper so payments reduce in a transparent and predictable way as earnings increase. The Government has made the UC taper slightly more generous, reducing it from 65% to 63%, which now means a claimant gets to keep 37p for every £1 earned.

The Government is spending almost £6bn on childcare in 2019/20. Under Universal Credit, a couple or a single parent who are in work but on a low income, can claim back up to 85% of their eligible childcare costs. This was increased from 70% in April 2016. Unlike legacy means-tested benefits, UC does not have a rule which states that entitlement is based upon claimants working more than 16 hours per week. This is critical to supporting the UC principle that work pays, regardless of the number of hours worked.

UC childcare costs can be claimed up to a month prior to starting work, and the Flexible Support Fund is available to help eligible claimants pay deposits and up-front costs when moving into work. Single parents in particular may be able to benefit from these changes as they can accept a job with lower hours and gradually increase the number of hours they work, which in time will increase their overall household income.

Childcare costs can be claimed by any working claimant who is in receipt of UC and pays for childcare costs to enable them to undertake paid work. For those with shared parental (or guardianship) responsibility, each parent or carer can claim UC childcare costs so long as they are eligible. The hours of childcare must be relevant to their hours of work, and be within the days / times that they are responsible for the care of the child.

***(4) What lessons or insights can we draw from other countries (in the design of their tax and benefit systems in relation to separated parents to support the needs and resources of separated parents and their children)?***

In regard to child maintenance, countries organise their child support schemes in different ways. Traditions of support are influenced by history, culture and socio-political institutions. There are both similarities and differences in the role the state plays in family affairs. Private, or 'family based arrangements' are encouraged in most countries, but there is support from the state where these are not possible, either through a government agency, or the courts.

Though now quite dated, the following DWP commissioned research (2007) provides a comparative profile of international child maintenance schemes:

<https://www.york.ac.uk/inst/spru/pubs/pdf/rrep405.pdf>

According to Eurostat, in 2017, the UK percentage of lone parents in poverty was 17.0% whilst the average for the EU-28 countries was 16.9%.<sup>8</sup>

SSAC may also want to review the *Generations and Gender Programme* (<https://www.ggp-i.org/>), which is an international study that contains household data for many (mostly European) countries.

***(5) SSAC are also interested in how shared care arrangements have changed over time and whether those trends were driven by the benefit system and have requested evidence on the following:***

- *evidence to suggest how shared care arrangements have changed over time?*
- *evidence to suggest whether the benefit system drove these changes or that they were driven by something else?*

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<sup>8</sup> <https://ec.europa.eu/eurostat/web/microdata/european-union-statistics-on-income-and-living-conditions>

- *evidence to suggest how Universal Credit may be having an impact on shared care arrangements?*

Across the benefit system, there is a general principle of the need to ascertain the primary carer and subsequent decisions concerning entitlement to benefits – whether Child Benefit, Child Tax Credit, Universal Credit or Child Maintenance – then flow from that determination. However, individual arrangements are complex and tax and benefit systems cannot be designed in a way that accommodates every circumstance.

DWP does not have data sources to address this question. In addition, whilst child maintenance has collaboration at its core, DWP has no involvement in decisions with regard to child arrangements (including residence and contact) as these sit with Ministry of Justice.

SSAC may find it helpful to note the **child maintenance policy rationale towards shared care**<sup>9</sup>, which is summarised below.

A shared care reduction in child maintenance liability can be applied to reflect the contribution to the care of a child made by the Paying Parent. For the purpose of calculating a child maintenance liability a distinction is made between *overnight care* and *day to day care*.

Overnight care: Overnight care is classed as a night spent by a child in a house where the parent is present at the same time.

To decide whether a shared care reduction should be applied there is a 'nights of care' test, which requires us to look at how many nights per year the child resides at the same address as the Paying Parent. For every day above 52 per year the calculation is adjusted as demonstrated in the table below

Number of nights	Reduction as a ratio
52-103	1/7
104-155	2/7
156-174	3/7
175 or more	1/2 Plus an additional £7 for each child for which the non -resident parent provides this level of care

Child maintenance is paid weekly. We reduce in ratios of sevenths to reflect how the number of nights per year relates to a weekly amount. The 'bands' allow for a simpler calculation of the reduction.

Where shared care is disputed we seek evidence from both parties on which to make a decision. The evidence we seek includes a court order or official agreements drawn up by solicitors.

**Rationale:** Our rates of reduction for shared overnight care reflect a reasonable reduction to reflect the cost of the care the Paying Parent provides.

<sup>9</sup> *Shared care*: a term used to describe a situation where a child spends time living with both parents in different households. The child does not necessarily have to spend an equal amount of time in each house but shared care usually means that the child spends some nights sleeping in each home.

Day to day care: Day to day care is not defined in regulations but is concerned with who is taking primary responsibility for a child's care. Our policy is that the primary determining factor for deciding this is looking at which of the parties is eligible to receive child benefit for the child in question.

Where there is agreement on shared care or the Paying Parent can demonstrate that they have equal day to day care with the Receiving Parent there will be no requirement to pay maintenance.

If the child benefit status is unclear, and verbal evidence from the parties does not align, the Paying Parent is required to provide written evidence. This may include evidence from:

- A Court Order
- GPs/Schools/Dentists showing that they are the main contact, or an equal contact with the parent with care.
- Care providers showing they are the main or equal contact or had a main or equal part in the drawing up of any childcare contract.
- Bank statements, receipts, contracts etc that show they have a main or equal involvement in major spending decisions on the child.

*Rationale:* Where both parents are meeting their obligations to their children equally, there is no need for one to make additional payments of child maintenance

Why a 50/50 care split results in a maintenance liability

Where the 50/50 split concerns *day to day* care of the child then we deem parents to have equal care of the children and there is no requirement for either party to pay child maintenance.

Where the 50/50 split concerns *overnight* care a reduction of 50% can be applied with an additional fixed reduction for each child, as described above.

*Rationale:* In these cases, a legal obligation to pay child maintenance still exists, as one parent meets the legal definition of a Receiving Parent, and the other a Paying Parent. It is, however, only fair that it is adjusted down to reflect the contributions the Paying Parent is already making.

In regard to **Universal Credit**, we understand that, in general, the numbers of 50:50 shared parental care arrangements are low. In most cases therefore, there will be one parent that the child(ren) spend a greater proportion of time with or who has main responsibility for the child(ren).

In line with long-held principles of income-related benefits – whether in-work or out-of-work - only one parent is eligible to receive support through Child Tax Credit or the child amount in Universal Credit for their children<sup>10</sup>. This has not changed under Universal Credit. Parents are able to nominate which of them is the main carer or has main responsibility for the child(ren). In cases where this is not possible, the Secretary of State for Work and Pensions has the power to decide which parent to award the child amount in Universal Credit and this would generally be the parent who receives Child Benefit.

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<sup>10</sup> <sup>10</sup> For Tax Free Childcare (and 30 hours free childcare that HMRC receives applications for and determines eligibility for on behalf of DfE) - only one parent can have the childcare account for any child. HMRC encourages separated parents to sort out between them who that should be and use childcare in a way that suits both. In the event that they can't agree then HMRC will determine who should have the account.

It is possible that paying the child amounts in CTC or UC to one parent in separated families could be seen as a disincentive to 50:50 shared care arrangements. However, separated parents are able to share these child amounts between themselves in any private arrangement they reach. Moreover, this has always been a fact of the benefit system and has not changed under Universal Credit.

In regard to **Child Benefit (CB) and Child Tax Credit (CTC)**, HMRC does not have data sources on how shared care arrangements have changed over time.

If helpful, SSAC may wish to review the following summary of ways in which shared care arrangements work for both Child Benefit and Child Tax Credit.

When two or more people claim **Child Benefit** for the same child in the same week, and they all meet the normal conditions of entitlement, only one of them can be entitled to Child Benefit in respect of that child for that week. The question "which of them is entitled?" is determined in accordance with the priority rules.

The current system places Child Benefit in the hands of one parent/guardian and gives that person responsibility for allocating it between capital and day to day costs. This ensures that the parent or family with priority of entitlement for a child is provided with a suitable level of support for any particular child at any one time.

HMRC recognises that where families share responsibility for a child there may be issues around the availability of support. However, the Government's current position is that payment of support to the family with priority of entitlement for a child is seen as the most appropriate way to deal with the majority of families with children.

Similarly where two or more people claim **Child Tax Credit**, only one of them can be entitled. Child Tax Credit is therefore paid to the claimant with main responsibility for the child.

The principal policy objective is to target that support to reduce child poverty. The benefit attaches to the child rather than the parent. It is paid to the person with main responsibility as they bear more of the everyday expenditure for the child and most of the "capital" expenditure on items such as clothes, shoes, sporting and leisure equipment, school trips etc. Splitting the benefit could reduce the amount available to the main carer and would be administratively complex and costly.

Where parents have separated, HMRC encourages both parties to agree between themselves who should claim Child Benefit or CTC. HMRC advises them that it is possible for them to agree jointly for Child Benefit to be paid to one parent and CTC to the other, or for one parent to claim both payments and pay an agreed proportion to the other parent.

Where parents cannot agree, both can make a claim. HMRC will then decide, based on information received from each parent, as to who receives Child Benefit or CTC.

In general, the claimant who appears to bear the greater responsibility will be awarded entitlement, and, if entitlement is to be transferred, the decision-maker must be satisfied that the person currently not entitled bears a greater responsibility than the other.

Similarly, questions are asked about which address is used for school/doctor, who looks after the child when ill and what are the terms of the residence order (if any) as they are indicators which help the decision maker to build up an overall picture of responsibility. It is also relevant to take account of financial provision for the child, since Child Benefit is intended as a contribution towards that provision, but this is only an indication of the degree

of responsibility borne as one parent may be less able to contribute financially than the other. Consideration may also be given to the wider financial impact of awarding Child Benefit, in particular entitlement to other social security benefits.