Child Support Agency Annual Report and Accounts 2005/06

Part of the Department for Work and Pensions child support agency

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Child Support Agency

Annual Report and Accounts 2005/06

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Contents

Message from the Chief Executive

This report covers my first year as Chief Executive of the Agency, a year in which the performance of the Agency has begun to improve and in which important decisions have been made about the future of child support in the United Kingdom. There is still a long way to go to reach acceptable standards in operational performance and client service but the plans to achieve these goals are now firmly in place.

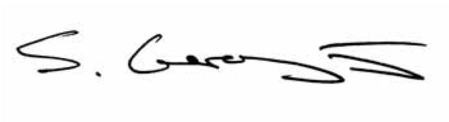
During the year, the management team undertook a comprehensive review of the Agency's performance and activities, developed a plan to recover the Agency and presented it to Ministers. This plan led to the announcement by the Secretary of State on 9 February 2006 of two parallel streams of work:

- the launch of an Operational Improvement Plan to improve the performance of the Agency over a three year period under the current legislation and implemented by the Agency;
- a redesign of the policy and delivery arrangements for child support led by Sir David Henshaw and expected to report to the Secretary of State for Work and Pensions in July 2006.

While the long-term future of the Agency is dependent on the outcome of Sir David Henshaw's review our task in the short-term is clear and we finished the year in a stronger position than we entered it. In the course of the year the Agency was reorganised into directorates focused on new applications, client services, debt management and enforcement; the board and senior management were strengthened; negotiations were opened with private sector contractors to provide tracing, debt collection and administrative services which will come into operation this autumn; and we reached a commercial settlement with our IT supplier, agreed the structure of releases to remediate the system fully by the end of 2007, and delivered several initial releases on time. The full benefits of these changes will be realised over the period of the Operational Improvement Plan but, while not at acceptable levels, operational performance improved across our range of measures. In particular, for the first time, the Agency cleared more new applications than it received and the Departmental target of answering over 95 per cent of telephone calls from queues is being met.

The forthcoming year will again be challenging for all the Agency's people. We need to concentrate on improving the effectiveness of the service we provide through implementing our Operational Improvement Plan against the inevitable uncertainty that debate over the long-term future of the Agency will bring. We also need to contribute to that debate and to focus it not on the past failings of the Agency but on the future and especially on the responsibility of non-resident parents to support their children.

Signed



Stephen Geraghty
Chief Executive

19 July 2006

The Child Support Agency - Part of the Department for Work and Pensions

The Department for Work and Pensions (the Department) exists to deliver the Government's welfare reform agenda.

The Child Support Agency (the Agency) contributes to the Department's objective of ensuring the best start for all children and ending child poverty by 2020.

The Agency exists to ensure that, where an application for child maintenance has been made, parents who live apart contribute financially to the upkeep of their children.

Our responsibilities

To:

- make timely and accurate calculations of child maintenance due;
- ensure that money is collected and paid out on time;
- help and support clients as they complete the process; and
- support and get the best out of our people to help them deliver more for clients.

Our main activities

To establish child support by:

- contacting parents with care and non-resident parents;
- facilitating the resolution of paternity disputes;
- calculating child maintenance;
- discussing and explaining the amount of maintenance to be paid with non-resident parents and parents with care;
- arranging a suitable method of payment; and
- monitoring the initial payments to ensure that a pattern of regular payment is established.

To maintain child support by:

- monitoring payments and intervening quickly when payments are late with both non-resident parents and parents with care;
- keeping calculations up to date when a change is reported; and
- enforcing maintenance arrangements, including the collection of arrears.

Our values

The Agency seeks to demonstrate the Department's values in the following ways:

Achieving the best

We will:

- understand and respond to the needs of our clients and listen to their concerns;
- set service standards covering key areas of our business and deliver consistently;

- deliver an efficient, professional and sensitive service;
- continuously improve our performance by learning from our successes and our mistakes; and
- use our resources efficiently.

Making a difference

We will:

- ensure that children whose parents do not live together are financially supported by taking action as soon as we can to get maintenance to those children; and
- support each other to work well.

Respecting people

We will:

- understand, respond to and invest in the needs of our people;
- treat our clients and each other with respect;
- value the ideas of others; and
- communicate clearly.

Looking outwards

We will:

- seek and welcome opportunities to work with partners in the public, voluntary and private sectors; and
- benchmark ourselves with the standards achieved by others.

Management Commentary

Development and performance of the Agency during the financial year

The Child Support Agency, as part of the Department for Work and Pensions receives its funding through the Department's Spending Review settlement.

The Department's funding from the 2004 Spending Review was announced to Parliament by the Chancellor in the summer of 2004. The Spending Review settlement provided funding for the three years 2005/06 to 2007/08.

The purpose of the three-year settlement is to give government departments the flexibility to plan ahead and remove the constraints of year-to-year planning. It allows them to carry forward under/over-spends from year-to-year within the spending review period.

The accounting treatment for Departmental welfare reform costs changed with effect from 1 April 2005. This meant that the costs of Child Support Reform previously accounted for in the accounts of the Department were transferred to the accounts of the Agency. This change has a "material" impact on the reported financial position and in line with Financial Reporting Standard 28 the 2004/05 accounting comparatives have been adjusted. Total expenditure on Child Support Reform in 2004/05 was £100 million; expenditure in 2005/06 on Child Support Reform and the Operational Improvement Plan was £95 million.

During 2005/06 the funding directly allocated to the Agency totalled £434 million (this included funding for Child Support Reform and for initial costs of the Operational Improvement Plan which were incurred in that year). Expenditure against this direct allocation totalled £409 million with the resultant under-spend being carried forward.

Net operating costs shown in the Administration Accounts is £465 million. This includes £56 million, which was not directly allocated to the Agency, but has been notionally recharged (without the transfer of cash) as the Agency's "share" of costs incurred by the Department for Work and Pensions in 2005/06.

Performance Commentary - the main performance points for March 2006 are:

- At 31 March 2006, 426,000 cases were in receipt of maintenance or had a Maintenance Direct arrangement in place, equating to 584,000 children. This represents an improvement of over 40,000 cases and over 50,000 children compared to March 2005.
- During 2005/06, the Agency reduced the total number of uncleared cases from 353,000 to 333,000, a fall of 6 per cent. These are cases where although much work may have been done, a clearance has not yet been achieved.
- 91 per cent of calls available to staff were answered during 2005/06, compared to 84 per cent in 2004/05. The average waiting time improved from 2:29 minutes in 2004/05 to 1:21 minutes for new system cases and from 56 seconds in 2004/05 to 28 seconds for old system cases.
- In March 2006, 42,000 cases received a Child Maintenance Premium, almost double the 23,000 cases in receipt in March 2005. By March 2006, and since the inception of the new scheme, almost 100,000 cases had received one or more payment.

- In March 2006, gross debt stood at £3.5 billion. Debt increased steadily by an average of around £22 million per month in the year to March 2006. Debt will continue to grow as the Agency has no powers to write it off in any circumstances.
- In the legal enforcement area of child support, around 10,300 liability orders were granted in 2005/06, up from 7,200 in 2004/05. In addition, 15 committal sentences and 376 suspended committal sentences were given during 2005/06, up from 6 and 221 respectively, in 2004/05.
- The value of maintenance collected by the Agency, or arranged via Maintenance Direct, totalled some £855 million. This consisted of £594 million collected via the Agency's collection service in 2005/06, with Maintenance Direct arrangements in place at the end of March 2006 worth an equivalent annual cash value of £261 million.
- The accuracy of maintenance calculations has been steadily improving this year, a significant improvement on 2004/05 performance. New scheme accuracy for 2005/06 was 81 per cent, an increase from 75 per cent in 2004/05. Old scheme accuracy for 2005/06 was 84 per cent, again an increase from 78 per cent in 2004/05, against a target of 82 per cent.
- The average number of days lost through sickness per full time equivalent employee reduced during 2005/06, falling from 15.9 days in the 12 months to March 2005 to 12.0 days in the 12 months to March 2006.

Progress against Secretary of State Targets

Case compliance

Overall case compliance performance was maintained throughout the year. Performance reached 71 per cent in March 2006 for the first time since July 2004. New scheme performance levels remained steady increasing one percentage point in March 2006 to reach 67 per cent (against a 78 per cent target). Old scheme compliance showed a slight increase over last year and stood at a high of 75 per cent in March, meeting the 75 per cent target.

Cash compliance

Overall cash compliance performance was maintained throughout the year. New scheme performance reached 63 per cent (against a 75 per cent target). Old scheme performance rose to 75 per cent, exceeding the 68 per cent target.

Accuracy

Accuracy performance in the 12 months to March 2006 for new scheme was 81 per cent (against a 90 per cent target). Old scheme performance was 84 per cent, achieving the 82 per cent target.

Arrears

Maintenance arrears collected in the three months to March 2006 was equivalent to 41 per cent of the total amount of unpaid regular maintenance accruing over the same period, exceeding the 30 per cent target. This is up from 34 per cent a year ago.

Unit cost

The 2005/06 actual administration staff cost per live and assessed case was £203 (against a £202 target). This is a slight increase on 2004/05 unit cost of £196, which is attributable to additional employer superannuation charges outlined at Note 2 to the Annual Accounts.

Performance during 2005/06 is shown in the table at Annex 1.

Position of the Agency at the end of the year

Over 426,000 parents were in receipt of maintenance or had a Maintenance Direct arrangement in place, benefiting 584,000 children.

New applications and Agency caseload

In March 2006, the Agency caseload was just over 1.5 million, of which 596,000 (39 per cent) were new scheme cases and 923,000 (61 per cent) were old scheme cases.

Trends and factors underlying the development, performance and position of the Agency during the financial year

The priorities set in the 2005/06 Business Plan were:

- **Improve position for new scheme clients and maintain position for old scheme clients**

  The performance improvements in many areas since April 2005 have been maintained. This provides us with a solid foundation on which to deliver future improvements.

- **Continue to improve effectiveness of enforcement**

  Enforcement Teams are utilising their enforcement powers, which is demonstrated by the improvement in the in-month cash collections achieved. We undertook more enforcement activities in 2005/06 resulting in:

  - over 10,000 liability orders granted (compared to last year 7,200);
  - 15 sentences for committal and 5 disqualifications from holding or obtaining a driving licence (compared to 6 committal sentences and 4 driving licence disqualifications); and
  - 376 suspended or deferred sentences (compared to 221 last year) received for committal and a further 35 suspended or deferred (compared to 24 last year) from holding or obtaining a driving licence.

- **Support our people**

  As part of the Department, we continue to be recognised as an Investor in People.

  During 2005/06 we have:

  - revised and enhanced our training and education material for new entrants, introduced a blended classroom based and e-learning approach and coaches to support and guide people during the consolidation of their learning;
  - completed the final phase of our Management Development Programme; and
  - continued to work closely with the Public and Commercial Services Union on issues affecting our people, including the Operational Improvement Plan.

- **Prepare to move existing cases to the new arrangements (migration and conversion)**

  Ministers have always said that no decision will be taken on when to convert old scheme cases until they are confident that the new scheme is working well.

In February 2006, the Secretary of State commissioned Sir David Henshaw to undertake a fundamental re-design of child support policy and delivery mechanisms.

- **Continue to improve corporate governance**

  Throughout the year, we have continued to work closely with the Department's Risk Assurance Division to identify and improve governance processes. In November 2005, our Chief Executive announced the creation of six new directorates as the basis for a new organisation design for the Agency.

Additional priorities which we share with the rest of the Department

Working with others

We have worked closely with our stakeholders and partners in government throughout the year, including:

- Jobcentre Plus, who form part of this Department. This has led to improvements in handling new applications from parents with care who are in receipt of Income Support or income based Jobseekers Allowance; and
- HM Revenue and Customs who provide us with information in tracing non-resident parents and self-assessments of income from the self-employed.

Sustainable development

Bio-diversity strategies have been integrated into the management of our estates, resulting in several of our larger sites now using power generated from renewable sources. We have continued to measure office waste and encourage its recycling where possible.

Diversity

Our Diversity Statement details our commitment to valuing diversity and equal opportunities during this reporting year. We continued our commitment to diversity by delivering awareness training to over 80 per cent of our people. This training delivered legislative requirements on diversity awareness.

Agency future development

Operational Improvement Plan

The first year of the three year Operational Improvement Plan will be implemented in 2006/07. A new senior leadership team has been put in place to support this and a new Agency structure introduced.

Management information improvements

In response to the recommendations of the Work and Pensions Select Committee, we have made improvements to our management information in respect of both old and new scheme cases. The Agency's *Quarterly Summary of Statistics* is a National Statistics publication, which provides a comprehensive analysis of Agency performance.

Client Charter

In April 2006, we published our Client Charter, which provides an overview of the role of the Agency and explains what standards of service we aim to provide for our clients. It also explains how to give feedback and what can be done if things go wrong.

Annex 1 - Performance against Key Ministerial Targets

Key Ministerial Targets	Targets for			
		2003/04	2004/05	2005/06
Case Compliance (Old Scheme) To collect child maintenance and arrears from 75% of non-resident parents with liability due to be paid through the Agency's collection service.	Target Outturn	75% 1	75% 72%	75% 75%
Case Compliance (New Scheme) Child maintenance and/or arrears will be collected where there is maintenance liability due to be paid through the collection service from 78% of cases.	Target Outturn	78% 1	78% 66%	78% 67%
Cash Compliance (Old Scheme) To collect 68% of child maintenance and arrears due for payment through the Agency's collection service.	Target Outturn	68% 1	68% 73%	68% 75%
Cash Compliance (New Scheme) To collect 75% of child maintenance and/or arrears where there is a maintenance liability due to be paid through the collection service.	Target Outturn	75% 1	75% 61%	75% 63%
Accuracy (Old Scheme) Accuracy on the last action for all assessments checked in the year to be correct to the nearest penny in at least 82% of cases.	Target Outturn	82% 86%	82% 78%	82% 84%
Accuracy (New Scheme) Accuracy on the last decision for all maintenance calculations to be correct to the nearest penny in at least 90% of cases.	Target Outturn	90% 82%	90% 75%	90% 81%
Unit Cost Achieve a cost per case of £202.	Target Outturn	- -	£202 £196	£202 £203
Debt[2] To collect arrears equivalent to 30% of the amount accruing due to non-payment of regular maintenance.	Target Outturn	- -	- -	30% 41%

Notes

Note 1 Robust data from the new computer system (CS2) covering the period March 2003 to March 2004 is not available, therefore we cannot provide compliance outturn figures for 2003/04.

Note 2 The 2005/06 debt target excluded arrears built up and collected from old scheme cases for which an Interim Maintenance Assessment (IMA) had been imposed.

Annual Statement of Accounts
for the year ended 31 March 2006

Administration Accounts

Foreword

Statutory background

The Child Support Agency (the Agency) presents its Accounts for the financial year ended 31 March 2006. The Accounts have been prepared in accordance with the direction given by HM Treasury in pursuance of Section 7 (2) of the Government Resources and Accounts Act 2000.

The Agency was formed in April 1993 and is part of the Department for Work and Pensions (the Department).

Principal activities

The principal activities of the Agency are set out in its Framework Document (1995). The Agency exists to assess, collect, pay and, where necessary, enforce child support maintenance in accordance with the law and directions from the Secretary of State.

Performance targets

The Agency's performance targets were set out in the 2005/06 Business Plan, which was published in March 2005. A more detailed description is provided in Annex 1 of the Annual Report on pages 10 to 11.

Results for the year on an accruals basis

The Operating Cost Statement shows the Net Administration Cost of the Agency on an accruals basis.

The Net Administration Cost amounted to £465 million (2004/05 restated, £426 million). Capital expenditure for the year, full details of which are given in Note 7, amounted to £0.2 million (2004/05, £0.4 million). The Net Administration Cost includes £0.8 million (2004/05, £0.2 million) of expenditure on assets valued at less than £5,000, which are not capitalised (see Note 1.2).

The Net Administration Cost has been calculated after including a number of notional costs which are not currently charged to the Agency but which are borne centrally by the Exchequer, for example, cost of capital charge (see Note 1.9).

Going concern

The Agency receives its funding from the Department and as part of the Spending Review 2004 settlement has clear funding amounts through to 2007/08. These amounts will be made available when needed and are sufficient to fully implement the Operational Improvement Plan.

In common with other parts of the Department, the Agency's Balance Sheet at 31 March 2006 indicates more liabilities than assets. As with other Government Departments, the Agency continues to be financed by drawings from the UK Consolidated Fund on an on-going basis. The application for future financing of the Department, of which the Agency is part, will be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming. It has therefore been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Accounting Treatment

The accounting treatment for Departmental welfare reform costs changed with effect from 1 April 2005. This meant that the costs of Child Support Reform previously accounted for in the accounts of the Department were transferred to the accounts of the Agency. This change has a material impact on the reported financial position and in line with Financial Reporting Standard 28 the 2004/05 accounting comparatives have been adjusted. Total expenditure on Child Support Reform in 2004/05 was £100 million; expenditure in 2005/06 on Child Support Reform and the Operational Improvement Plan was £95 million.

Parliamentary funding

The Agency is a supply-financed Executive Agency of the Department and, as such, remains subject to gross expenditure control under the Parliamentary Vote system. The net cash cost of the Agency's operations, along with the rest of the Department, will be accounted for within Schedule 1 of the Department's Resource Account. This account will be finalised and published later in the year.

The Agency's work programme and expenditure plans for the year were published in the Agency's Business Plan for 2005/06 and form part of CM 6221: Department for Work and Pensions Departmental Report 2005.

Employment of disabled persons

People with disabilities, as defined in the Disability Discrimination Act 1995, are employed across all parts of the Agency.

Commitment to equality and valuing diversity

In line with Departmental policy, the Agency is committed to providing services which embrace diversity and which promote equality of opportunity. As an employer, the Agency is committed to equality and valuing diversity within its workforce. Our goal is to ensure that these commitments, reinforced by our Values, are embedded in our day-to-day working practices with all our clients, colleagues and partners.

Employee involvement

Our people have access to welfare services, which support them and promote well-being in the workplace.

Our people also have access to trade union membership. The Agency has procedures for consulting its trade unions and supports representation in the workforce by trade union representatives.

The Agency is committed to ensuring that its people at all levels can contribute towards decisions affecting the day-to-day business of the Agency.

Payments to suppliers

The Agency is committed to the prompt payment of bills for goods and services received. Payments are normally made as specified in the contract. If there is no contractual provision or other understanding, they are paid within 30 days of receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever is later. A review of all payments made during a 12 month period, conducted to measure how promptly the Agency pays its bills, found that approximately 95 per cent 2005/06 (2004/05, 97 per cent) of bills were paid within this standard.

The 'Late Payment of Commercial Debts (Interest) Act 1998' and the 'Late Payment of Commercial Debts Regulations 2002', which came into force on 7 August 2002, provide all businesses and public sector bodies with, amongst other entitlements, the right to claim interest for late payment.

No interest charges have arisen or been paid to suppliers by the Agency.

Public interest

There are no company directorships or other significant interests held by board members, which may conflict with their management responsibilities.

External audit

These Accounts have been audited by the Comptroller and Auditor General whose certificate and report appear on pages 30 to 31.

Post balance sheet events

There have been no material post balance sheet events that require disclosure in these Accounts and the financial statements reflect the conditions that existed at the balance sheet date.

The Euro

The Agency continues to maintain its changeover planning and preparation activities such that, in the event of a positive decision to join the single European currency, the changes required to the computer systems, business systems and products will have been identified and quantified and the Agency would be able to meet the timescales set out in the Third National Changeover Plan.

Administration Accounts
Remuneration Report

Management

Appointment and remuneration of the Chief Executive

The Chief Executive of the Child Support Agency (the Agency) was appointed by the Permanent Secretary. The appointment is for a fixed term under the terms of the Senior Civil Service Management Code.

The Chief Executive's pay is determined by the Permanent Secretary in line with the Senior Civil Service pay arrangements.

Further details of remuneration are set out in the Remuneration Report and Note 2 to these Accounts.

Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated, the officials covered by this Report hold appointments, which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk

Remuneration policy

The remuneration of those Board Members of the Agency who are senior civil servants is determined by a Pay Strategy Committee (the Committee) chaired by the Permanent Secretary of the Department for Work and Pensions (the Department), and also comprising the Department's Human Resources Director, the Chief Executive of Jobcentre Plus, and a Non-Executive Director of the Department. The Committee follows independent advice from the Review Body on Senior Salaries (the Review Body).

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of people;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits;
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com

Agency Board

Members of the Child Support Agency Board (as at June 2006)

Richard Arthur	Non-Executive Director and Chair (appointed 15 March 2006)
John Cross	Non-Executive Director (appointed 1 July 2003)
Ron Eagle	Information System/Information Technology Director (appointed 14 June 2004)
Bryan Foss	Non-Executive Director (appointed 15 March 2006)
Stephen Geraghty	Chief Executive (appointed 1 April 2005)
Bill Griffiths	Non-Executive Director (appointed 15 March 2006)
Mark Grimshaw	Strategic Programme Director (appointed 17 January 2005) (Chief Operating Officer until 3 October 2005)
Alan Hardy	Finance and Business Assurance Director (appointed 3 April 2006)
Peter Holden	Non-Executive Director (appointed 15 March 2006)
Susan Jillings	Non-Executive Director (appointed 23 February 2006)
Susan Park	Operations Director (appointed 3 April 2006)
Ian Pavey	Human Resources Director (appointed 8 May 2006)
Jonathan Portes	Director of Children and Poverty, Department for Work and Pensions (ex officio) (appointed 15 March 2006)
Hilary Reynolds	Client and Stakeholder Relationships Director and Deputy Chief Executive (appointed 1 November 2005)

The following people also served as members of the Child Support Agency Board during the 2005/06 financial year:

Jim Edgar	Finance Director (until 2 April 2006)
Elaine Fox	Human Resources Director (until 7 May 2006)
Mary Hay	Non-Executive Director (until 30 June 2005)
Mike Isaac	Parliamentary Business Director (until 30 September 2005)
Barney McGahan	Non-Executive Director (until 31 March 2006)
Shirley Trundle	Director, Department for Work and Pensions (ex officio) (until 14 March 2006)
Barbara Moorhouse	Non-Executive Director (until 31 January 2006)

The following Board members were appointed on fixed term contracts

Director	Date of appointment	Contract expiry date
Stephen Geraghty	1 April 2005	31 March 2008
Ron Eagle	14 June 2004	13 June 2007

Board members of the Agency where no cost has been incurred by the Agency in 2005/06 are as follows:

Mary Hay	(paid by HM Revenue and Customs)
Barney McGahan	(paid by the Northern Ireland Child Support Agency)
Shirley Trundle CBE	(paid by the Department for Work and Pensions Head Office and Corporate and Shared Services)
John Cross	
Susan Jillings	
Richard Arthur	
Bryan Foss	
Bill Griffiths	
Peter Holden	
Jonathan Portes	(paid by the Department for Work and Pensions Head Office and Corporate and Shared Services)

Fees paid by the Agency to Non-Executive Board members amounting to £17,000 (2004/05 £20,000) were:

	2005/06 Total Fees and Expenses £'000	**2004/05 Total Fees and Expenses £'000**
Barbara Moorhouse	17	20

Remuneration and pension entitlements

The following sections provide details of the remuneration and pension entitlements of the most senior officials of the Agency.

Remuneration	2005-06			2004-05		
	Salary £'000	Full Year Equivalent Salary £'000	Benefits in kind to nearest £100	Salary £'000	Full Year Equivalent Salary £'000	Benefits in kind to nearest £100
Stephen Geraghty *Chief Executive*	175-180	175-180	0	0	0	0
Mike Isaac *Deputy Chief Executive and Director of Operations*	50-55	105-110	26	105-110	105-110	63
Hilary Reynolds *Deputy Chief Executive and Director of Client and Stakeholder Relationships*	40-45	105-110	18	0	0	0
Ron Eagle *Information System/Information Technology Director*	100-105	100-105	0	85-90	110-115	0
Jim Edgar *Finance Director*	75-80	75-80	0	65-70	65-70	0
Elaine Fox *Director of Human Resources*	100-105	100-105	0	100-105	100-105	0
Mark Grimshaw *Strategic Programme Director*	140-145	140-145	0	20-25	95-120	0

Salary

Salaries quoted relate solely to the period during the year when the individuals concerned served on the Agency Board.

"Salary" includes gross salary, performance pay or bonus, overtime, reserved rights to London weighting or London allowance, recruitment and retention allowance, private office allowance and any other allowance to the extent that it is subject to UK taxation.

Benefits in Kind

The estimated monetary value of Benefits in Kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument.

Non-cash remuneration

All remuneration of the most senior officials of the Agency is disclosed within the above table. The Agency did not make any non-cash awards during 2005/06.

Compensation to former senior managers

The Agency did not make any awards to former senior managers.

Payments for loss of office

The Agency did not make any payments for loss of office.

Pension Entitlements

	Accrued pension at age 60 as at 31 March 2006 and related lump sum £'000	Real increase in pension and related lump sum at age 60 £'000	Cash Equivalent transfer value at 31 March 2006 £'000	Cash Equivalent transfer value at 31 March 2005 £'000	Real increase in Cash Equivalent Transfer Value £'000	Employer's contribution to Partnership Pension Account to nearest £100
Stephen Geraghty *Chief Executive*	10-15 Plus 0-5 lump sum	0-2.5 Plus 0-2.5 lump sum	166	134	27	-
Mike Isaac *Deputy Chief Executive and Director of Operations*	40-45 Plus 125-130 lump sum	0-2.5 Plus 0-2.5 lump sum	1,060	1,016	19	-
Hilary Reynolds *Deputy Chief Executive and Director of Client and Stakeholder Relationships*	20-25 Plus 60-65 lump sum	0-2.5 Plus 0-2.5 lump sum	315	298	11	-
Ron Eagle *Information System/Information Technology Director*	0-5 Plus 0-5 lump sum	0-2.5 Plus 0-2.5 lump sum	45	15	22	-
Jim Edgar *Finance Director*	25-30 Plus 80-85 lump sum	0-2.5 Plus 5-7.5 lump sum	451	310	39	-
Elaine Fox *Director of Human Resources*	30-35 Plus 75-80 lump sum	0-2.5 Plus 0-2.5 lump sum	553	403	27	-
Mark Grimshaw *Strategic Programme Director*	5-10 Plus 15-20 lump sum	0-2.5 Plus 0-2.5 lump sum	82	45	20	-

The cash equivalent transfer value of Stephen Geraghty's pension entitlement at 31 March 2005 incorporates previous Principal Civil Service Pension Scheme entitlement.

Civil Service pensions

Pension entitlements are provided through the Principal Civil Service Pension Scheme (PCSPS) arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Classic Plus and Premium). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Classic Plus and Premium are increased annually in line with changes in the Retail Price Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (Partnership Pension Account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for Classic and 3.5 per cent for Classic Plus and Premium. Entitlements in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three times annual pension is payable on retirement. For Premium, entitlements accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum but members may give up (commute) some of their pension to provide a lump sum. In Classic Plus entitlements accrue as with Classic (including lump sum) for service before 1 October 2002 and as with Premium (including optional lump sum) for service from 1 October 2002.

The Partnership Pension Account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill-health retirement). None of the directors of the Agency currently holds a Partnership Pension Account.

Further details about the PCSPS arrangements can be found at the website http://www.civilservice-pensions.gov.uk/

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme entitlements accrued by a member at a particular point in time. The entitlements valued are the member's accrued entitlements and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension entitlements in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the entitlements accrued in their former scheme. The pension figures shown relate to the entitlements that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and other pension details, include the value of any pension entitlement in another scheme or arrangement, which the individual has transferred to the PCSPS arrangements and for which the Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension entitlement accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own costs. CETV's are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any entitlements transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Signed

Stephen Geraghty
Chief Executive

19 July 2006

Administration Accounts
Statement of responsibilities of the Child Support Agency and its Chief Executive

Under Section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury has directed the Child Support Agency (the Agency) to prepare a statement of Accounts for each financial year in the form and on the basis set out in the Accounts Direction.

The Accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year-end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the Accounts the Agency is required to comply with the Financial Reporting Manual prepared by HM Treasury, and in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and

- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Principal Accounting Officer of the Department for Work and Pensions has appointed the Chief Executive of the Agency as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Agency's assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in Government Accounting.

Additionally I confirm that, so far as I am aware, there is no information relevant to the audit of the Accounts of which the auditors are unaware. I have taken all responsible steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

Signed

Stephen Geraghty
Chief Executive

19 July 2006

Administration Accounts
Statement on internal control

1. Scope of responsibility

As Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of Agency policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

As the Child Support Agency's (the Agency) Accounting Officer I am accountable to the Department for Work and Pensions (the Department) Principal Accounting Officer, the Permanent Secretary, who is appointed by Her Majesty's Treasury. I keep the Permanent Secretary informed of progress and significant issues facing the Agency during our regular bi-lateral meetings.

From 1 April 2005 the accounting treatment for Departmental welfare reform costs changed. This means that the costs of the Child Support Reform Programme previously accounted for in the accounts of the Department were transferred to the Agency.

The Northern Ireland Child Support Agency administers, on a contractual basis, casework for a defined region of England on behalf of the Agency. All people working in the Northern Ireland Child Support Agency's Belfast centre are employees of the Department for Social Development Northern Ireland, which initially bears the cost of running the centre. An agreement is in place between the Agency and the Northern Ireland Child Support Agency and all of these costs are reimbursed by the Agency.

The Departmental planning framework has identified and taken into consideration the risks to the delivery of the Public Service Agreement targets across the Department and its agencies.

In April 2005 Ministers asked for a thorough review of the Agency's operations. They have been fully involved in reviewing the recommendations on a recovery plan showing the scale of the challenge and the depth of the issues the Agency faces. This resulted in the publication of an Operational Improvement Plan with an associated additional £120 million investment. Ministers also concluded that they needed to consider more fundamentally the policy and delivery arrangements for child support and have asked Sir David Henshaw to make proposals for redesigning the system of child support.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Agency policies, aims and objectives, to evaluate the likelihood of those risks being realised and their potential impact. The system of internal control has been in place in the Agency for the year ended 31 March 2006, and up to the date of the approval of the Annual Report and Accounts and accords with Her Majesty's Treasury guidance.

3. Capacity to handle risk

The Agency's Executive Team recognises the importance of risk management and has endorsed the content of the Department's risk management framework in order to help promote it throughout the Agency. They have actively managed the risks that have emerged from the strategic review during the year. Governance processes such as the Audit Committee and managerial letters of assurance have also continued to operate during the year. However the Standards Committee only met once during the year due to the resignation of the chair as non-executive director of the Agency.

A number of risk management tools are available to support people working in the Agency depending on individual requirements. These include a Departmental e-learning package, two courses run by the Agency's learning resource centre and the Agency risk management intranet site.

4. The risk and control framework

The development of the Operational Improvement Plan has been a key area of work in 2005/06. Launched in February 2006, this plan sets out a programme to stabilise and improve the Agency's performance over a three-year period from 2006 to 2009. It sets out how the Agency will radically overhaul operations to provide a significantly improved level of client service, systematically reduce existing applications that have not yet been assessed, increase compliance through additional enforcement resources and therefore deliver an overall improvement in the amount of money collected for children.

In the last year a new governance structure has been established to provide strategic leadership and achieve the aims of the Operational Improvement Plan. The new structure includes:

- A board, whose skills and experience have been strengthened and broadened through the appointment of a number of executive and non-executive directors;
- An Executive Team that is the primary decision making forum for the Agency; and
- An Audit Committee that comprises non-executive board members and provides me with advice and support in my responsibilities for risk management, internal control, corporate governance and associated assurance.

The Agency has also been restructured into lines of Business that will allow it to focus on the lifecycle of child support cases.

The Agency adopted the project risk management methodology of the Department in 2001 and continues to apply it in most areas of the business to identify, allocate ownership of, prioritise, review and control risks at all levels within the Agency.

The Agency has several established processes, which help to further embed risk management within the organisation. The Operational Improvement Plan has led to the development of a strategic risk register, ensuring key risks are visible and helping senior managers focus the critical risks to the delivery of the plan. The Agency risk management framework is available to all employees via the intranet.

The Agency participates fully in the Departmentally led Planning, Performance and Risk Committee which is responsible for the identification, prioritisation, escalation and management of key strategic risks and has established structures to ensure effective engagement between the Agency, key stakeholders and partners in communicating and managing interdependencies.

All senior managers in the Agency are expected to familiarise themselves with the content of the corporate governance framework and to adhere to the principles contained therein. They are required to provide letters of assurance confirming that they have complied with this and all other control procedures.

Business continuity management arrangements are in place across the organisation to safeguard the Agency's operations.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

Throughout the year the Audit Committee has reviewed and commented on the effectiveness of internal controls. The Committee has been aware of the strategic review of the Agency and the resultant Operational Improvement Plan. The Committee has recognised the concerted management efforts at improving performance and that some productivity improvement has already been achieved. However, performance remains well below levels that might be regarded as satisfactory.

During the year an audit was undertaken on the effectiveness of the risk management process in identifying key risks to achievement of the Agency's objectives. The audit concentrated on frontline services namely the operational territories and business units. It identified that the risk management process was being adhered to and that risks were being regularly identified and reviewed. However, the risk methodology in use was not highlighting the Agency's real risks and focusing on appropriate mitigation actions. The Agency acknowledges the issues raised and has developed an approach to strengthen its application of risk management. This will be delivered via the introduction of an ongoing risk improvement plan during the forthcoming year.

The development and subsequent implementation of the Operational Improvement Plan resulted in a temporary degradation in the ability of the organisation to identify risks and develop suitable mitigation plans. Only limited assurance was therefore obtained from the audit of frontline services.

The Agency also contributed to a Departmental risk assessment exercise during the year and identified a number of areas for improvement.

A full review of the Agency's business continuity management process was undertaken to assess its effectiveness identifying a number of areas for improvement.

6. Significant internal control problems

Significant control weaknesses identified in the Operation Improvement Plan and the 2005/06 Annual Assurance Report are:

- Governance
- Financial Management and Control
- Performance
- Compliance

- Management Information
- Information Technology and Security

Action plans have been developed to address each of these.

- **Governance -** The Standards Committee has not met since September 2005 due to the departure of its Chairperson. The Standards Committee will be reformed during 2006/07. The upkeep and monitoring of governance products such as the corporate governance framework document have effectively been put on hold during the year due to the strategic review and the uncertainty in the new organisational structure. These will be re-established during 2006/07 and updated with the emerging information from the Operational Improvement Plan and monitored through the Audit Committee and newly formed Standards Committee. Managerial letters of assurance provided assurance during the majority of the year, but following the strategic review and subsequent implementation of the Operational Improvement Plan, changes were required to support the new organisational structure. As a result, Letters of Assurance were not provided by all members of the newly appointed Executive team. For the financial year 2006/07 the process has been revised to fully support the new organisation. As the Agency developed its Operational Improvement Plan, and identified the associated risks, it was necessary for the Risk Assurance Division to develop an internal audit work plan for the year independently. The work plan is aligned to the Departmental strategic risk register and based on risks identified by the Agency's Executive Team. Work is ongoing to revise the Agency strategic risk register in line with Departmental standards.
- **Financial Management and Control –** During the year a specific issue emerged with regard to controls over emergency or ex gratia payments to clients that are charged to the Administration Accounts. This process was substantially redesigned to tighten controls and has been implemented. The new Departmental resource management system, introduced in February 2006, had some teething problems in a number of areas including payment of invoices. The Agency, along with other agencies, is currently working with the Department to resolve these issues.
- **Performance -** Well documented problems with the Agency's computer systems and processes have meant that its clients have not been able to take full advantage of the new legislative framework, and the Agency continues to under perform against its targets. However, the Agency has started to increase enforcement activity by taking more cases to court for action than ever before. More resources are being put into this area with the size of enforcement teams planned to quadruple over the 3-year timeframe of the Operational Improvement Plan.
- **Compliance -** Compliance with both procedures and guidance are below target. This is a result of non-standardised cumbersome operational processes and insufficient resources focused on direct case progression with no capability to allow more experienced caseworkers to deal with complex cases. This is being addressed through the Operational Improvement Plan.
- **Management Information -** Lack of robust management information has been an ongoing issue for the Agency, resulting in an inability to measure performance. During 2005/06 managers were reliant on a mixture of inaccurate system generated management information and fallible clerically generated management information. Work is ongoing to address this issue with significant improvements being made through a management information improvement project, which has successfully developed and delivered meaningful and accurate management information.

Improvements in management information are a key part of the Operational Improvement Plan and further results are expected over the 3-year timeframe of the plan.

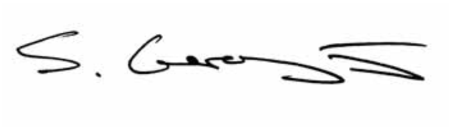
- **Information Technology (IT) –** The Agency has major problems with IT systems, and a prioritised programme of work has been agreed with the IT supplier to rectify some of the remaining problems and to support other changes throughout the timeframe of the Operational Improvement Plan. The current release schedule provides for the rectification of 212 defects associated with the top 17 categories of stuck cases. These defects are amongst the 506 agreed defects that require resolution under the terms of the Department's commercial settlement with EDS achieved in August 2005. The remaining 294 defects will also need to be addressed in this plan.
- **IT Security –** The Agency experienced problems related to the production of Departmental Central Index (DCI) test checks. An incident has been raised but remains a significant risk until it is resolved. There is concern with the lack of progress and delays around the development of an effective audit trail reducing the assurance level over the assessment of the Agency's performance in this area from substantial to limited as a result. There are planned computer upgrades to correct this.

These areas will be addressed through the implementation of the Operational Improvement Plan.

In acknowledging and identifying issues, it is equally important to recognise that the Agency has helped many people. Last year over £600 million was collected by the Agency. This excludes the maintenance generated from a further 100,000 cases where the Agency has made an assessment, but the maintenance is paid directly between parents in the form of 'maintenance direct'. By the end of this year the Agency will have collected over £5 billion since it was formed.

The Agency published new client service standards in April 2006. Benefits realised from the Operational Improvement Plan will be regularly monitored during the year to ensure that progress is made.

Signed



Stephen Geraghty
Chief Executive

19 July 2006

Child Support Agency Administration Accounts The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the Child Support Agency Administration Accounts for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Chief Executive and Auditor

The Agency and Chief Executive are responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of responsibilities of the Child Support Agency and its Chief Executive.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report and Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 25 to 29 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and Foreword and consider whether it is consistent with the audited financial statements. This other information comprises only the Message from the Chief Executive, 'The Child Support Agency – Part of the Department for Work and Pensions', the Management Commentary, the Foreword and the unaudited part of the Remuneration Report. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder, of the state of the Agency's affairs as at 31 March 2006 and of the net administration costs, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

20 July 2006

Operating Cost Statement

for the year ended 31 March 2006

	Notes	2005/06 £'000	Restated 2004/05 £'000
Administration Costs			
Staff costs	2	239,553	218,869
Non-staff administration costs	3	225,840	206,917
Gross Administration Costs		**465,393**	**425,786**
Operating income	6	(171)	(199)
Net Administration Costs		**465,222**	**425,587**

All income and expenditure is derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2006

	Notes	2005/06 £'000	Restated 2004/05 £'000
Net gain on revaluation of tangible fixed assets	13	8	43
Net loss on transfer of assset to the Department's HOCSS (as explained at Note 17)		(19,391)	-
Recognised gains and losses for the year		**(19,383)**	**43**
Restatement of prior year (as expained at Note 23)		19,392	
Gains and losses recognised since last annual report		**9**	

The notes on pages 35 to 54 form part of the accounts.

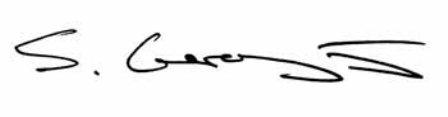
Balance Sheet

as at 31 March 2006

	Notes	2005/06 £'000	Restated 2004/05 £'000
Tangible Fixed Assets	7	**7,777**	**13,425**
Debtors falling due after more than one year	8	**2,732**	**33,468**
Current Assets			
Debtors falling due within one year	8	5,007	9,645
Cash at bank and in hand	9	1	1
		5,008	**9,646**
Current Liabilities			
Creditors falling due within one year	10	(19,097)	(28,768)
Net Current liabilities		**(14,089)**	**(19,122)**
Total Assets Less Current Liabilities		**(3,580)**	**27,771**
Provisions for liabilities and charges	11	(1,411)	(1,030)
		(4,991)	**26,741**
Taxpayers' Equity			
General fund	12	(5,027)	26,703
Revaluation reserve	13	35	36
Government grant reserve	13	1	2
		(4,991)	**26,741**

The notes on pages 35 to 54 form part of the accounts.

Signed



Stephen Geraghty
Chief Executive

19 July 2005

Cash Flow Statement
for the year ended 31 March 2006

	Notes	2005/06 £'000	Restated 2004/05 £'000
Net Cash Outflow from Operating Activities	14(i)	(363,581)	(371,806)
Net Cash Outflow from Investing Activities	14(ii)	(185)	(457)
Financing from Consolidated Fund (supply)	14(iii)	363,766	372,263
Change in cash for the year		**0**	**0**

The notes on pages 35 to 54 form part of the accounts.

Notes to the Administration Accounts

For the year ended 31 March 2006

1 Statement of accounting policies

The Financial Statements have been prepared in accordance with the 2005/06 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the Public Sector.

Where the FReM permits a choice of accounting policy, the accounting policy that has been judged to be most appropriate to the particular circumstances of the Child Support Agency (the Agency) for the purpose of giving a true and fair view has been selected. The Agency's accounting policies have been applied consistently in dealing with items considered material in relation to the Accounts.

1.1 Accounting Convention

These Accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, at their value to the business, by reference to their current cost.

1.2 Tangible Fixed Assets

Tangible fixed assets are stated at the lower of replacement cost or recoverable amount.

The Agency does not include in its Balance Sheet capital values for the software, which it utilises under a number of major contracts with external providers. Details on the disclosure for these contracts are set out at Note 17.

All computer hardware and owned software is treated as capital assets. For all other tangible assets, excluding vehicles, the prescribed capitalisation level is £5,000. Where an item costs less than the capitalisation level, but forms an integral part of a package whose total value is greater than the capitalisation level, then the item is treated as a capital asset. On initial recognition assets are measured at cost, including any costs such as installation directly attributable to bringing them into working condition.

For furniture and fittings, the total costs of maintaining a record of relatively low value individual items is considered to be prohibitive and therefore these items are recorded on a pooled basis.

Internally developed software is capitalised if it meets the criteria specified in the FReM, which are adapted from Statement of Standard Accounting Practice (SSAP) 13 to take account of the not-for-profit context. Costs are classified as assets under construction until the asset is brought into service. Expenditure, which does not meet the criteria for capitalisation, is treated as an operating cost in the year in which it is incurred.

All fixed assets are revalued by reference to appropriate HM Treasury approved indices.

Increases in value are credited to the Revaluation Reserve whilst decreases in value are debited to the Revaluation Reserve up to the level of depreciated historical cost for any asset previously revalued. Any excess devaluation (impairment) is charged to the Operating Cost Statement along with devaluation on assets (such as computers) not previously revalued.

Each year, the realised element of the Revaluation Reserve (i.e. an amount equal to the excess of the actual depreciation over depreciation based on historical cost) is transferred from the Revaluation Reserve to the General Fund.

On disposal of a revalued asset, the balance on the Revaluation Reserve in respect of that asset becomes fully realised and is transferred to the General Fund.

1.3 Estimation Techniques

The calculation of the provision for bad/doubtful administration debt is based on likely future write-offs and is calculated on a case-by-case basis with reference to the age and status of the debt.

1.4 Land and Buildings

The Agency does not include in its Balance Sheet capital values for the freehold and leasehold land and buildings, which it occupies under the Private Sector Resource Initiative for Management of the Estate (PRIME) and Newcastle Estates Development (NED) contracts. In accordance with Financial Reporting Standards (FRS) 5 the contracts have been treated as an operating sale and leaseback, as the risks and rewards of ownership have been substantially transferred to the Contractor.

The Agency has accounted for the deferred benefit, which will result from reduced accommodation charges from the NED contract by establishing a prepayment, which is released annually, over the 30-year period of the contract, to the Operating Cost Statement on a straight-line basis (see Note 8).

1.5 Depreciation

Depreciation is provided on all tangible fixed assets, using the straight-line method, at rates calculated to write off the current replacement cost (less any estimated residual value) of each asset, in equal instalments over its expected useful life. Fixed assets are depreciated from the month following acquisition. No depreciation is charged in the month of disposal. Assets under construction are not depreciated until the asset is brought into use.

Tangible fixed assets are depreciated over the following expected useful lives:

Information Technology	3 to 5 years
Plant and Machinery	5 to 10 years
Furniture and Fittings	7 to 15 years
Motor Vehicles	4 to 7 years

1.6 Stocks

The Agency holds stocks of stationery, computer spares and similar consumable materials. Due to the nature of these items the Agency does not consider it appropriate to reflect their value in the Balance Sheet. Accordingly the Agency has charged all expenditure on consumable items to the Operating Cost Statement.

1.7 Operating Income

Operating income is income, which relates directly to the operating activities of the Agency. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work. It includes both income appropriated-in-aid of the Estimate and also income to the Consolidated Fund, which in accordance with the FReM is treated as operating income (see Note 6).

1.8 Administration Expenditure

The Operating Cost Statement is analysed by Administration costs only. Administration costs reflect the costs of funding the Agency as defined under the Administration Cost Control Regime, together with associated operating income. Income is analysed in the Notes between that which is allowed to be offset against gross administration costs in determining the outturn against the Administration Cost Limit, and that operating income which is not. The Agency has no Programme costs.

1.9 Cost of Capital Charge

A charge, reflecting the cost of capital utilised by the Agency, is included in notional costs (see Note 5). The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent - 2004/05 3.5 per cent) on the average carrying amount of all assets less liabilities, except for:

a) intra departmental balances;

b) cash balances with the Office of HM Paymaster General, where the charge is nil; and

c) assets and liabilities in respect of amounts due from, or due to be surrendered to, the Consolidated Fund, where the charge is nil.

1.10 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), details of which are described in the Remuneration Report. The defined benefit schemes are unfunded and are non-contributory except in respect of dependent's benefits. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. The Agency meets the cost of pension cover provided for the people they employ by payment of charges calculated on an accruing basis. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year. There is a separate scheme statement for the PCSPS as a whole. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

1.11 Early Departure Costs

The Agency meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Agency provides for this in full when the early retirement programme becomes binding on the Agency by establishing a provision for the estimated payments discounted by HM Treasury discount rate of 2.2 per cent (2004/05, 3.5 per cent) in real terms.

1.12 Provisions

The Agency provides for legal or constructive obligations, which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury (currently 2.2 per cent) (2004/05, 3.5 per cent).

1.13 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Agency discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Government Accounting.

These comprise:

- items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Agency Minute prior to the Agency entering into the agreement; and
- all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of the Accounts), which are required by the FReM to be noted in the Accounts.

Where the time value of money is material, contingent liabilities, which are required to be disclosed under FRS 12, are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.14 Leases

There are no finance leases (as defined by SSAP 21) within the Agency.

Other leases are regarded as operating leases and the rentals are charged to the Operating Cost Statement on a straight-line basis over the term of the lease.

1.15 Private Finance Initiative (PFI) transactions

PFI transactions have been accounted for in accordance with Technical Note No. 1 (Revised) entitled How to account for PFI transactions as required by the FReM.

Where the balance of the risks and rewards of ownership of the PFI asset are borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the Agency has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract. Where at the end of the PFI contract a property reverts to the Agency, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year.

Where the balance of risks and rewards of ownership of the PFI asset is borne by the Agency, the asset is recognised as a fixed asset and the liability to pay for it is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

1.16 Value Added Tax (VAT)

Most of the activities of the Agency are outside the scope of VAT and in general output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

A change in accounting treatment for VAT occurred during the financial year, where any VAT balances are transferred to the Department for Work and Pensions (the Department) Head Office and Corporate and Shared Services (HOCSS) to be held, paid over or re-claimed centrally.

1.17 Third-Party Assets

The Agency holds, as custodian, certain monies belonging to third parties. These are not recognised in the Accounts since neither the Agency nor Government more generally has a direct beneficial interest in them.

1.18 Northern Ireland Child Support Agency

The Agency's Belfast centre is housed in Great Northern Tower along with the Northern Ireland Child Support Agency. All people working in the Agency's Belfast centre are employees of the Department for Social Development Northern Ireland, which initially bears the cost of running the centre. All of these costs are reimbursed by the Agency and are included in the Operating Cost Statement along with inter-departmental notional charges for which no actual payment is made by the Agency. These Accounts also include the Agency's proportion of fixed assets, which are in shared use and owned jointly with Northern Ireland Child Support Agency. The whole value of fixed assets used and owned exclusively by the Agency in its Belfast centre is also included in these Accounts.

2 Staff numbers and costs

(a) Staff costs consist of:

	Permanently employed people	Others £'000	2005/06 £'000	Restated 2004/05 £'000
Wages and salaries	185,392	7,897	193,289	185,098
Employer's National Insurance	11,749	223	11,972	11,716
Superannuation and Pension costs	34,286	6	34,292	22,055
Total	**231,427**	**8,126**	**239,553**	**218,869**

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005/06 normal employers' contributions of £33.2 million were payable to the PCSPS (2004/05, £22.1 million) at one of four rates in the range 16.2 per cent to 24.6 per cent (2004/05, 12 per cent to 18.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Outstanding contributions amounting to £2.7 million (2004/05 restated, £0.8 million) were payable to the Civil Superannuation Vote at 31 March 2006 and are included in creditors.

Employees joining after 1 October 2002 could opt to open a Partnership Pension Account, which is a stakeholder pension with an employer contribution. Employer's contributions of £63,793 (2004/05, £43,622) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent (2004/05, 3 per cent to 12.5 per cent) of pensionable pay. Employers also match employee contributions of up to 3 per cent of pensionable pay. In addition, employer contributions were paid to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the Partnership Pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

14 people (2004/05,14 people) retired on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £69,244 (2004/05, £56,550).

b) Average number of people employed

The average number of people employed during the year is shown in the table below:

	Permanently employed people	Others	2005/06 Total	Restated 2004/05
Total	**9,949**	**483**	**10,432**	**10,188**

In line with Cabinet Office guidance the Department has revised the way it counts people, the principal changes relate to people on maternity leave and those on long term sick, who are now included in the count in line with other government departments. The changed methodology has been applied in the 2005/06 year only and included at Note 2b above. The impact of this change is to increase the 2005/06 disclosures by 182 when compared with the methodology previously used.

3 Non-Staff Administration Costs

	Notes	2005/06 £'000	Restated 2004/05 £'000
IT cash costs		79,422	66,371
Non-cash items	4	79,601	82,588
Rentals under operating leases:			
Hire of plant and machinery		370	537
Other operating leases		0	0
Compensation to customers	21	3,853	2,801
Interest payable	3a/21	285	208
Advance payments of maintenance	21	962	767
Accommodation costs		4,492	3,888
Goods and services	3b	28,320	23,609
Refund payments		3,887	5,468
Deferred debt payments		443	506
Reduction in provision for bad/doubtful debt	3c/3d	719	(3)
Services provided by other Government Departments	3e	23,486	20,177
		225,840	**206,917**

a. Interest payable represents payments to customers in lieu of bank interest lost due to late maintenance payments.

b. Goods and services expenditure is mainly in respect of printing, postage and stationery, telecoms, travel and subsistence and office expenses and services.

c. A provision for bad debts against fees was made in earlier years, in order to allow for the potential non-payment of fees. The movement on the provision and associated debtor account for the period 2005/06 is as follows:

	Debtor £'000	Provision £'000	Net £'000
Balance as at 1 April 2005	12,351	(12,351)	0
Written off in the year	0	0	0
Recovered	(1)	1	0
Increase in the provision	0	0	0
Balance as at 31 March 2006	12,350	(12,350)	0

d. A provision for bad/doubtful debts against payments recoverable from customers was created during the year. The movement on the provision and associated debtor account for the period 2005/06 is as follows:

	Debtor £'000	Provision £'000	Net £'000
Balance as at 1 April 2005	1,171	0	1,171
Written off in the year	(119)	105	(14)
Recovered	(4,962)	0	(4,962)
Additions	5,691	(720)	4,971
Balance as at 31 March 2006	1,781	(615)	1,166

e. Services are provided through a Service Level Agreement by Northern Ireland Child Support Agency, on behalf of the Agency, and consist of staff costs, which are reimbursed during the course of the year.

4 Non-Staff Administration Costs: Non-cash items

	Notes	2005/06 £'000	Restated 2004-05 £'000
Notional costs	5	68,669	68,284
Depreciation of fixed assets	7d	5,284	5,755
Loss on disposal of fixed assets	7d	126	354
Impairment of fixed assets	7b	1,510	896
Amortisation of accommodation prepayment	8c	122	122
Amortisation of child support computer system prepayment		2,885	6,924
Provisions:			
Movement in year	11	974	220
Unwinding of discount	4a/11	31	33
		79,601	**82,588**

a. The unwinding of the discount represents the effect of recalculating the present value of the provision before the impact of the uplift has been taken into account.

5 Notional Administration Costs

Certain services are provided and received by the Agency without the transfer of cash. Amounts are included in the net cost of operations of £68.7 million (2004/05 restated, £68.3 million) to reflect these costs and are comprised as follows:

	Notes	2005/06 £'000	Restated 2004-05 £'000
Cost of capital charge		0	229
Auditor's remuneration and expenses: Administration Account	5a	55	50
Auditor's remuneration and expenses: Client Funds Account	5a	230	160
Northern Ireland notional costs		284	277
Inter Business Unit Charges:			
IT non-cash charges		10,892	16,586
Services provided and costs incurred by other Departmental business units on behalf of the Agency	5b	59,047	61,806
Less:			
Services provided and costs incurred by the Agency on behalf of other Departmental business units		(1,839)	(10,824)
		68,669	**68,284**

a. The audit fee represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General.

b. Services provided and costs incurred by other business units on behalf of the Agency include:

- £33.9 million (2004/05 restated, £26.2 million) of corporate recharges for finance, personnel, commercial management, postage and assurance
- £27 million (2004/05, £24.5 million) of accommodation costs provided by the Department's Head Office and Corporate and Shared Services (HOCSS).

6 Income and Appropriations-in-Aid

Operating Income

Operating income not appropriated-in-aid (i.e. transferred to the Consolidated Fund (supply)) is analysed for resource budget purposes between that which is included in public expenditure and that which is not. In 2005/06 all operating income not classified as appropriations-in-aid was included in public expenditure.

	2005/06			Restated 2004/05		
	Appropriated -in-aid £'000	Payable to Consolidated Fund £'000	Total £'000	Appropriated -in-aid £'000	Payable to Consolidated Fund £'000	Total £'000
Operating income analysed by classification and activity is as follows:						
Administration income						
Fees and charges to external customers	(126)	0	(126)	(136)	0	(136)
Fees and charges to other government departments	(44)	0	(44)	(62)	0	(62)
Amortisation of government grant reserve	(1)	0	(1)	(1)	0	(1)
	(171)	0	(171)	(199)	0	(199)

An analysis of income from services provided to external and public sector customers is as follows:

	2005/06			Restated 2004/05		
	Income £'000	Full Cost £'000	Surplus/ Deficit £'000	Income £'000	Full Cost £'000	Surplus/ Deficit £'000
Sundry income	(126)	126	0	(136)	136	0
Income from other government departments	(44)	44	0	(62)	62	0
Amortisation of government grant	(1)	1	0	(1)	1	0
	(171)	171	(0)	(199)	199	0

7 Tangible Fixed Assets

Cost or valuation	Notes	Information Technology	Plant and machinery	Furniture and fitting	Motor vehicles	Total
		£'000	£'000	£'000	£'000	£'000
As at 1 April 2005 - as previously reported		27,884	1,785	693	1,123	31,485
Prior year additions	7f	1,857	(1)	2	(66)	1,792
As at 1 April 2005 restated		29,741	1,784	695	1,057	33,277
Restatement	7a	9	0	0	0	9
Additions	7a	188	8	21	0	217
Transfers in	7c	2,262	27	0	526	2,815
Disposals	7d	0	(40)	(119)	0	(159)
Transfers out	7c	(734)	(34)	0	(136)	(904)
Revaluation	7b	0	4	0	12	16
Impairment	7b	(4,406)	0	(12)	0	(4,418)
At 31 March 2006		**27,060**	**1,749**	**585**	**1,459**	**30,853**
Depreciation						
As at 1 April 2005 - as previously reported		17,634	1,294	305	474	19,707
Prior year depreciation	7f	123	0	1	21	145
As at 1 April 2005 restated		17,757	1,294	306	495	19,852
Restatement	7d	105	0	(164)	96	37
Charged in year	7d	4,992	33	66	193	5,284
Transfers in	7c	1,420	16	0	25	1,461
Disposals	7d	0	(36)	3	0	(33)
Transfers out	7c	(517)	(17)	0	(90)	(624)
Revaluation	7b	0	2	0	5	7
Impairment	7b	(2,902)	0	(6)	0	(2,908)
At 31 March 2006		**20,855**	**1,292**	**205**	**724**	**23,076**
Net book value at 31 March 2006		**6,205**	**457**	**380**	**735**	**7,777**
Net book value at 31 March 2005 (restated)		**11,984**	**490**	**389**	**562**	**13,425**

All Tangible Fixed Assets are owned by the Agency.

a. Total additions in the year were £0.2 million (2004/05, £0.8 million). This consisted of £0.2 million (2004/05, £0.4 million) of capital expenditure and £Nil of adjustments (2004/05, £0.4 million).

b. The net increase in asset values arising from the revaluation of fixed assets of £0.02 million (2004/05, £0.04 million) and the related backlog depreciation of £0.01 million (2004/05, £0.02 million) have been transferred to the Revaluation Reserve (see Note 13). The devaluation (impairment) in fixed asset values arises from the movement of HM Treasury Producer Price Indices within the year. The permanent decrease in value of £1.5 million (2004/05, £0.9 million) in excess of previous revaluation has been charged to the Operating Cost Statement (see Note 4).

c. The transfers in of assets with a net book value of £1.4 million (2004/05, £1.3 million) includes IT equipment of £0.8 million (2004/05, £1.1 million) which is largely in respect of replacement equipment purchased as part of the Early Office Infrastructure programme, and £0.5 million (2004/05 restated, £0.4 million) of motor vehicles purchased on behalf of the Agency. Transfers out include £0.3 million (2004/05, £1.1 million) of transfers to other departmental agencies or core department, on a gross basis, that is at depreciated replacement cost together with any related balance on the Revaluation Reserve.

d. Total depreciation in the year was £5.3 million (2004/05, £5.8 million). This consisted of £5.3 million (2004/05 restated, £5.8 million) charged to the Operating Cost Statement and £Nil (2004/05, £0.2 million) relating to assets purchased prior to 2005/06 charged to the General Fund (see Note 7a). The loss on sale of fixed assets charged to the Operating Cost Statement in the year is £0.1 million (2004/05 restated, £0.4 million) (see Note 4).

e. Cash Flow Reconciliation:

	Notes	2005/06 £'000	Restated 2004/05 £'000
Capital creditor and accruals at 1 April	10	9	50
Capital additions	7a	217	416
Capital Creditors and Accruals at 31 March	10	(41)	(9)
Purchases of Tangible fixed assets per Cash Flow Statement		**185**	**457**

f. The restatement of assets was necessary because of the machinery of Government changes, whereby Departmental welfare reform assets and costs were transferred to individual Agency accounts from 1 April 2005. The impact of this restatement is provided in Note 23 of these Accounts.

8 Debtors

	Notes	2005/06 £'000	Restated 2004/05 £'000
Amounts falling due within one year:			
Deposits and advances	8a	28	44
Accommodation prepayment		122	122
Other prepayments and accrued income		249	766
Intra Department debtors		1	0
Child support computer system prepayment	8d	0	6,924
Amounts due from other Government departments		2,490	18
Other debtors	3d	2,117	1,771
		5,007	**9,645**
Amounts falling due after more than one year:			
Deposits and advances	8b/19	169	200
Child support computer system prepayment	8d	0	30,583
Accommodation prepayment	8c	2,563	2,685
		2,732	**33,468**

a. Deposits and advances due within one year include £23,300 (2004/05, £29,000) of house purchase advances due from 31 people (2004/05, 39).

b. Deposits and advances due after more than one year include £169,129 (2004/05, £200,000) of house purchase advances due from 26 people (2004/05, 35).

c. The movement in the accommodation prepayment is due to amortisation.

d. Following IT Contract re-negotiations, the child support computer system prepayment has been subsumed into the Transformation of EDS Services (TREDSS) Historic and Transformation prepayments. Hence, the prepayment has been transferred to the Department's HOCSS. (See Notes 17 and 18)

Intra-Government debtors

	Amounts falling due within one year 2005/06 £'000	Amounts falling due within one year Restated 2004/05 £'000	Amounts falling due after more than one year 2005/06 £'000	Amounts falling due after more than one year Restated 2004/05 £'000
Balances with other government departments	2,490	18	0	0
Intra Department balances	1	0	0	0
Balances with bodies external to government	2,516	9,627	2,732	33,468
	5,007	**9,645**	**2,732**	**33,468**

9 Cash at Bank and In Hand

	2005/06 £'000	2004/05 £'000
Balance at 1 April	1	1
Change in cash balances	0	0
Balance at 31 March	**1**	**1**
The following balances were held at 31 March:		
Cash in hand	1	1

The current Department policy is to hold all operational bank accounts centrally. The Financial Services Division of the Department's HOCSS is the custodian of the Department's bank accounts and, as such, holds balances on behalf of the Agency.

10 Creditors

	2005/06 £'000	Restated 2004/05 £'000
Amounts falling due within one year:		
Taxation and social security	5,218	5,549
Superannuation	2,650	757
Trade creditors - non capital	3,540	1,883
Trade creditors - capital	41	9
Other creditors	251	243
Other government departments	0	757
Non capital accruals and deferred income	7,397	19,570
	19,097	**28,768**

Intra-government creditors

	Amounts falling due within one year 2005/06 £'000	Amounts falling due within one year Restated 2004/05 £'000	Amounts falling due after more than one year 2005/06 £'000	Amounts falling due after more than one year Restated 2004/05 £'000
Balances with other government departments	7,868	7,063	0	0
Balances with bodies external to government	11,229	21,705	0	0
	19,097	**28,768**	**0**	**0**

11 Provision for Liabilities and Charges

	2005/06 £'000	2004/05 £'000
Early Departure provision (gross)	1,411	1,030

Early departure and provision

	Notes	2005/06 Gross Provision £'000	Pre-payment £'000	Net Provision £'000
Balance at 1 April		1,030	0	1,030
Amounts utilised in year		(624)	0	(624)
Increase in provisions:				
New early retirees	4	958	0	958
Movement	4	(12)	0	(12)
Uplift	4	28	0	28
Unwinding of discount	4	31	0	31
Balance at 31 March 2005		**1,411**	0	**1,411**
Payable within one year		609	0	609
Payable after more than one year	19	802	0	802

12 Reconciliation of Net Operating Cost to changes in General Fund

	Notes	2005/06 £'000	Restated 2004/05 £'000
Net Administration Cost - as previously reported		(465,222)	(325,619)
Restatement		0	(99,968)
Net Administration Cost restated		(465,222)	425,587
Financing from Consolidated Fund (supply) - current year - as previously reported		383,157	264,493
Restatement		0	107,770
Financing from Consolidated Fund (supply) - current year - restated		383,157	372,263
Notional charges - as previously reported		68,669	58,541
Restatement		0	9,743
Notional charges restated	5	68,669	68,284
Transfer to General Fund of realised element of Revaluation Reserve	13	9	38
Non-cash capital additions - as previously reported		1,048	452
Restatement		0	1,845
Non-cash capital additions restated		1,048	2,297
Net movement in General Fund		**(12,339)**	**17,295**
General Fund at 1 April		26,703	9,408
Net loss on transfer of asset to the Department's HOCSS	17	(19,391)	0
General Fund at 31 March		**(5,027)**	**26,703**

The General Fund represents the historical cost of the assets employed by the Agency in its operations.

13 Reserves

Revaluation Reserve

	Notes	2005/06 £'000	Restated 2004/05 £'000
Balance at 1 April		36	31
Arising on revaluation during the year (net)		8	43
Transferred to General Fund in respect of realised element of Revaluation Reserve	12	(9)	(38)
Balance at 31 March		**35**	**36**

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

Government Grant Reserve

	2005/06 £'000	2004/05 £'000
Balance as at 1 April	2	3
Additions during the year	0	0
Amortisation of Reserve	(1)	(1)
Balance at 31 March	**1**	**2**

14 Notes to the Cash Flow Statement

(i) Reconciliation of Administration Cost to Operating Cash Inflow	Notes	2005/06 £'000	Restated 2004/05 £'000
Net Administration Cost		(465,222)	(425,587)
Adjustment for non-cash transactions	4	79,601	82,588
Decrease/(Increase) in debtors	8	35,374	(37,404)
(Decrease)/Increase in creditors (excluding capital trade creditors and capital accruals)	10	(9,703)	16,177
Amortisation of prepayments		(3,007)	(7,046)
Use of provision	11	(624)	(534)
Net Cash Outflow from Operating Activities		**(363,581)**	**(371,806)**
(ii) Analysis of Capital Expenditure and Financial Investment			
Tangible Fixed Asset additions	7e	(185)	(457)
Net Cash Outflow from Investing Activities		**(185)**	**(457)**
(iii) Analysis of Financing			
Financing from Consolidated Fund (supply) – current year	12	383,157	372,263
Adjustment to Cash Flow arising from restatement	23	(19,391)	0
Net Financing		**363,766**	**372,263**
(iv) Reconciliation of Net Cash Requirement to Change in Cash			
Net cash requirement		(363,766)	(372,263)
Financing from Consolidated Fund (supply) – current year		383,157	372,263
Adjustment to Cash Flow arising from restatement	23	(19,391)	0
		0	**0**

15 Capital Commitments

No capital commitments existed at 31 March 2006 (31 March 2005 – nil).

16 Commitments under non-PFI Operating Leases

Operating leases

At 31 March the Agency was committed to making the following payments during the next year, analysed according to the period in which the lease expires:

	31 March 2006		Restated 31 March 2005	
	Land and Buildings	Other	Land and Buildings	Other
	£'000	£'000	£'000	£'000
Expiry within 1 year	0	79	0	76
Expiry after 1 year but not more than 5 years	0	173	0	245
Expiry thereafter	0	0	0	0
	0	**252**	**0**	**321**

17 Commitments under PFI Contracts

In the period prior to 2005/06, the Department had entered into various contracts let under the Private Finance Initiative (PFI) which had been assessed under FRS 5 as being off the Department's balance sheet, the majority of risks having been transferred to the supplier. The Department has undertaken a major exercise in 2005/06 to consolidate existing contracts to deliver greater flexibility and improve both quality and the value for money delivered.

The resulting restructuring of contracts has impacted on the disclosure of some of these contracts. Details of these changes are given below

Off Balance Sheet (1)

The Department had entered into a contract with Electronic Data Systems (EDS), on behalf of the Agency, for the design and supply of a replacement to the Child Support Computer System. The contract, which was originally scheduled to run from 8 August 2000 to 31 August 2010, had been let under the Accord framework. The capital value of the contract was £3 million and represented the value of any hardware and software purchased and capitalised by the service provider specifically in connection with the service detailed in the contract.

As of 14 August 2005, this contract was subsumed via a Standard Services Business Allocation into TREDSS. The Department has determined that TREDSS should not be treated as a PFI contract. Expenditure relating to TREDSS and future commitments under this contract will be disclosed under “Other Financial Commitments” and declared in the Department’s HOCSS. As a result of this transfer to HOCSS the residual balance of transferred assets of £19.391m has been written off as a reduction to the general fund and is separately disclosed in the Statement of Recognised Gains and Losses. Therefore there are no future PFI financial commitments under this contract.

The total amount charged to the Operating Cost Statement in respect of this contract was £46.3 million (2004/05, £53.3 million) and the payments to which the Department is committed during 2006/07, analysed by the period during which the commitment expires, are as follows:

Charge to the Operating Cost Statement and future commitments

	2006-07 £'000	2005/06 £'000
Expiry within 1 year	0	45,977
	0	**45,977**

Off Balance Sheet (2)

The Advanced Telephony Business Allocation (ATBA) was a contract awarded by the Department to the Arcway (BT) consortium and was originally scheduled to run from April 2003 to March 2008. The estimated capital value of this contract was £24 million, which represented the value of any hardware, and software purchased and capitalised by the service provider specifically in connection with the services detailed in the contract. The total amount charged to the Operating Cost Statement in respect of this contract was £9.1 million (2004/05, £13.5 million).

With effect from 1 October 2005, the ATBA was subsumed into Integrated Communications and Network Services (ICONS), a contract with BT.

It has been determined that ICONS should not be treated as a PFI contract. Expenditure relating to ICONS and future commitments under this contract will be disclosed under "Other Financial Commitments" and declared in the Department's HOCSS Accounts. The payments to which the Department is committed during 2006/07, analysed by the period during which the commitment expires, are as follows:

Charge to the Operating Cost Statement and future commitments

	2006-07 £'000	2005/06 £'000
Expiry within 1 year	0	13,833
	0	**13,833**

As this contract has been subsumed into ICONS, there are no future commitments under this contract.

Off Balance Sheet (3)

In 1998, the Department entered into a PFI Partnership Agreement (PRIME) under which the former Department of Social Security transferred ownership and management of its Estate to a private sector partner, in exchange for the provision of fully serviced accommodation. This continues to be classed as a PFI arrangement and is disclosed in the Department's HOCSS Accounts.

Off Balance Sheet (4)

The Department had entered into the following PFI agreements, which had provided services to the Agency and which have now been renegotiated.

The Strategic Outsourcing Business Allocation (SOBA) was a contract awarded to Affinity consortium (EDS, IBM and PriceWaterhouseCoopers). On 14 August 2005, this contract was subsumed into the TREDSS contract via a Standard Services Business Allocation, details of which are given in the Department's HOCSS Accounts under "Other Financial Commitments".

The Business Allocation for the provision of Wide Area Network Services (WAN) was a contract awarded to the Arcway consortium. On 1 October 2005, this contract was subsumed into the ICONS contract, details of which are given in the Department's HOCSS Accounts under "Other Financial Commitments".

18 Other Financial Commitments

The department has entered into the following non-cancellable contracts (which are not leases of PFI contracts).

The TREDSS contract came into effect on 14 August 2005 and is a renegotiation of the ACCORD, ITPA and SOBA contracts, which the Department previously had with EDS via a Standard Services Business Allocation (SSBA). The Department has determined that TREDSS does not meet the criteria to be disclosed as a PFI contract. Details of other financial commitments under this arrangement are given in the Department's HOCSS Accounts.

On 1 October 2005, the Department consolidated two existing contracts (ATBA and WAN) with BT into the ICONS. The Department has determined that the contract does not constitute a PFI arrangement. Details of other financial commitments under this arrangement are given in the Department's HOCSS Accounts.

19 Financial instruments

FRS 13, Derivatives and other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government agencies are financed, the Agency is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Agency has very limited powers to borrow or invest surplus funds and financial assets, and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities.

Liquidity Risk

The Agency's net revenue resource requirements are financed by resources voted annually by Parliament, just as its capital expenditure largely is. The Agency is not, therefore, exposed to significant liquidity risks.

Interest rate risk

All of the Agency's financial assets and liabilities carry nil or fixed rates of interest and it is not therefore exposed to significant interest rate risk.

Fair values

Fair values of financial assets and liabilities are not significantly different from the book values since, in the calculation of book values, the expected cash flows have been discounted by the real rate set by HM Treasury of 2.2 per cent (2004/05, 3.5 per cent).

20 Contingent Liabilities disclosed under FRS 12

The Agency operates a discretionary scheme for certain qualifying cases whereby a lump sum payment of arrears is made to a parent with care before that money is collected by the Agency from the non-resident parent. Entitlement to such a payment is neither automatic nor referred to in legislation. These payments are shown in the Accounts as advance payments of maintenance and interest payable and in 2005/06 £1.247 million (2004/05 restated, £0.975 million) was charged. At 31 March 2006 a number of cases existed which may subsequently qualify under this scheme, giving rise to a potential liability. The amount of this liability is dependant on a number of factors, the outcome of which for each case is unable to be determined. For this reason no provision has been made in the Accounts. Any future potential liability is mitigated by the fact that this scheme can be withdrawn without notice.

21 Losses and Special Payments (Administration)

	2005/06	
	£'000	Number of cases
Losses	663	3,250
Special payments	5,227	11,736
	5,890	**14,986**

Losses

Non-salary related losses totalled 2,714 cases amounting to £508,302.

Special payments to members of the public

		2005/06	
	Notes	£'000	Number of cases
Compensation payments	3	3,853	11,515
Advance payments of maintenance	3	962	514
Interest	3a	285	2,476
		5,100	**14,505**

Details of cases over £250,000

There are no individual cases over £250,000.

22 Related Party Transactions

The Agency is an Executive Agency of the Department.

The Department is regarded as a related party. During the year, the Agency has had a number of transactions with the Department and with other entities for which the Department is regarded as the parent department, viz: The Pensions Service, the Appeals Service, Jobcentre Plus, the Department for Work and Pensions HOCSS and The Disability and Carers Service.

All Directors (including our Non Executive Directors) have provided confirmation that they have no related interests through other Directorships/Non Executive Directorships. Payments have been made to Service Tec Ltd of which John Cross is also a Non Executive Director. These relate to Consultancy fees for an employee of the company. The contract was gained in open and fair competition through the Office Journal of the European Union (OJEU).

The Agency maintains a register of Directors interests in third party companies and other than already disclosed there were no material transactions with key management during the financial year.

No board member, senior executive or other related party has undertaken any material transaction with the Child Support Agency during the year.

23 Transfer of Functions and Restatements

FRS 28 sets out the requirements for disclosure of corresponding amounts in the primary financial statements and the Notes to the financial statements.

Due to changes in accounting treatments and the introduction of a new financial system, balances for the year ended 31 March 2006 are not directly comparable with those published in the financial statements for the year ending 31 March 2005. In order to provide a true and fair view the comparative balances have been restated as follows:

The accounting treatment for Departmental welfare reform costs changed with effect from 1 April 2005. This meant that the costs of Child Support Reform previously accounted for in the accounts of the Department were transferred to the accounts of the Agency. This change has a material impact on the reported financial position and in line with FRS 28 the 2004/05 accounting comparatives have been adjusted. Total expenditure on Child Support Reform in 2004/05 was £100 million; expenditure in 2005/06 on Child Support Reform and the Operational Improvement Plan was £95 million.

In 2005/06, the Department introduced a new accounting system as part of the Resource Management System. The new chart of accounts had some impact on disclosure in the financial statements and therefore, to aid comparability, the 2004/05 Accounts have been restated using the new chart of accounts.

There has been a restatement regarding the disclosure of VAT debtors, which is to be disclosed in the Department's HOCSS Accounts from 2005/06 onwards. The 2004/05 Accounts have been restated to reflect this change in accounting treatment by transferring all VAT balances into the HOCSS Accounts.

Northern Ireland Child Support Agency staff provide a service to the Agency and in previous years this has been reported under staff costs. This year these costs have been restated under non-staff costs to better reflect the fact that a service is provided on our behalf and to show the substance of such service costs reimbursed during the course of the year. The 2004/05 Accounts have been restated to reflect this change in accounting treatment.

Operating Cost Statement	Published Accounts at 31 March 2005 £'000	Introduction of Oracle accounting system £'000	Child Support Reform £'000	VAT £'000	Northern Ireland Staff Costs £'000	Restated at 31 March 2005 £'000
Administration Costs						
Staff costs	220,988	0	18,058	0	(20,177)	218,869
Non-staff administration costs	104,830	0	81,910	0	20,177	206,917
Gross Administration Costs	**325,818**	**0**	**99,968**	**0**	**0**	**425,786**
Operating income	(199)	0	0	0	0	(199)
Net Administration Costs	**325,619**	**0**	**99,968**	**0**	**0**	**425,587**
Balance Sheet						
Tangible Fixed Assets	11,778	0	1,647	0	0	13,425
Debtors falling due after more than one year	2,885	0	30,583	0	0	33,468
Current Assets						
Debtors falling due within one year	3,347	(38)	6,945	(609)	0	9,645
Cash at bank and in hand	1	0	0	0	0	1
	3,348	**(38)**	**6,945**	**(609)**	**0**	**9,646**
Current Liabilities						
Creditors falling due within one year	(9,632)	38	(19,174)	0	0	(28,768)
Net Current Liabilities	**(6,284)**	0	**(12,229)**	**(609)**	**0**	**(19,122)**
Total Assets less Current Liabilities	**8,379**	0	**20,001**	**(609)**	**0**	**27,771**
Provisions for Liabilities and Charges	(1,030)	0	0	0	0	(1,030)
	7,349	0	**20,001**	**(609)**	**0**	**26,741**
Taxpayers Equity						
General Fund	7,313	0	19,999	(609)	0	26,703
Revaluation Reserve	34	0	2	0	0	36
Government Grant Reserve	2	0	0	0	0	2
	7,349	0	**20,001**	**(609)**	**0**	**26,741**

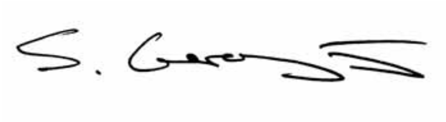
Client Funds Account

Foreword

This account, prepared on a cash basis, is a summary of all of the cash receipts and payments made between non-resident parents, parents with care, the Secretary of State and the Child Support Agency.

The account also records the movements in the debt amounts and the balances outstanding at the year-end.

Signed



Stephen Geraghty
Chief Executive

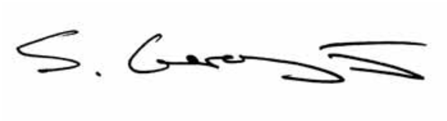
19 July 2006

Client Funds Account
Statement of Agency's and Chief Executive's responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury has directed the Child Support Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in a specified Accounts Direction. The Client Funds Account is prepared on a cash basis and must properly present the receipts and payments for the financial year and the balance held at the year-end.

The Accounting Officer for the Department for Work and Pensions has appointed the Chief Executive of the Child Support Agency as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of all funds for which he is answerable and for keeping proper records, are set out in the Accounting Officer's Memorandum, issued by HM Treasury and published in *Government Accounting*.

Signed



Stephen Geraghty
Chief Executive

19 July 2006

Client Funds Account
Statement on internal control

1. Scope of responsibility

As Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of Agency policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

As the Child Support Agency's (the Agency) Accounting Officer I am accountable to the Department for Work and Pensions (the Department) Principal Accounting Officer, the Permanent Secretary, who is appointed by Her Majesty's Treasury. I keep the Permanent Secretary informed of progress and significant issues facing the Agency during our regular bi-lateral meetings.

From 1 April 2005 the accounting treatment for Departmental welfare reform costs changed. This means that the costs of the Child Support Reform Programme previously accounted for in the accounts of the Department were transferred to the Agency.

The Northern Ireland Child Support Agency administers, on a contractual basis, casework for a defined region of England on behalf of the Agency. All people working in the Northern Ireland Child Support Agency's Belfast centre are employees of the Department for Social Development Northern Ireland, which initially bears the cost of running the centre. An agreement is in place between the Agency and the Northern Ireland Child Support Agency and all of these costs are reimbursed by the Agency.

The Departmental planning framework has identified and taken into consideration the risks to the delivery of the Public Service Agreement targets across the Department and its agencies.

In April 2005 Ministers asked for a thorough review of the Agency's operations. They have been fully involved in reviewing the recommendations on a recovery plan showing the scale of the challenge and the depth of the issues the Agency faces. This resulted in the publication of an Operational Improvement Plan with an associated additional £120 million investment. Ministers also concluded that they needed to consider more fundamentally the policy and delivery arrangements for child support and have asked Sir David Henshaw to make proposals for redesigning the system of child support.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Agency policies, aims and objectives, to evaluate the likelihood of those risks being realised and their potential impact. The system of internal control has been in place in the Agency for the year ended 31 March 2006, and up to the date of the approval of the Annual Report and Accounts and accords with Her Majesty's Treasury guidance.

3. Capacity to handle risk

The Agency's Executive Team recognises the importance of risk management and has endorsed the content of the Department's risk management framework in order to help promote it throughout the Agency. They have actively managed the risks that have emerged from the strategic review during the year. Governance processes such as the Audit Committee and managerial letters of assurance have also continued to operate during the year. However the Standards Committee only met once during the year due to the resignation of the chair as non-executive director of the Agency.

A number of risk management tools are available to support people working in the Agency depending on individual requirements. These include a Departmental e-learning package, two courses run by the Agency's learning resource centre and the Agency risk management intranet site.

4. The risk and control framework

The development of the Operational Improvement Plan has been a key area of work in 2005/06. Launched in February 2006, this plan sets out a programme to stabilise and improve the Agency's performance over a three-year period from 2006 to 2009. It sets out how the Agency will radically overhaul operations to provide a significantly improved level of client service, systematically reduce existing applications that have not yet been assessed, increase compliance through additional enforcement resources and therefore deliver an overall improvement in the amount of money collected for children.

In the last year a new governance structure has been established to provide strategic leadership and achieve the aims of the Operational Improvement Plan. The new structure includes:

- A Board, whose skills and experience have been strengthened and broadened through the appointment of a number of executive and non-executive directors;
- An Executive Team that is the primary decision making forum for the Agency; and
- An Audit Committee that comprises non-executive Board members and provides me with advice and support in executing my responsibilities for risk management, internal control, corporate governance and associated assurance.

The Agency has also been restructured into lines of business that will allow it to focus on the lifecycle of child support cases.

The Agency adopted the project risk management methodology of the Department in 2001 and continues to apply it in most areas of the business to identify, allocate ownership of, prioritise, review and control risks at all levels within the Agency.

The Agency has several established processes, which help to further embed risk management within the organisation. The Operational Improvement Plan has led to the development of a strategic risk register, ensuring key risks are visible and helping senior managers focus the critical risks to the delivery of the plan. The Agency risk management framework is available to all employees via the intranet.

The Agency participates fully in the Departmentally led Planning, Performance and Risk Committee which is responsible for the identification, prioritisation, escalation and management of key strategic risks and has established structures to ensure effective engagement between the Agency, key stakeholders and partners in communicating and managing interdependencies.

All senior managers in the Agency are expected to familiarise themselves with the content of the corporate governance framework and to adhere to the principles contained therein.

They are required to provide letters of assurance confirming that they have complied with this and all other control procedures.

Business continuity management arrangements are in place across the organisation to safeguard the Agency's operations.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

Throughout the year the Audit Committee has reviewed and commented on the effectiveness of internal controls. The Committee has been aware of the strategic review of the Agency and the resultant Operational Improvement Plan. The Committee has recognised the concerted management efforts at improving performance and that some productivity improvement has already been achieved. However, performance remains well below levels that might be regarded as satisfactory.

During the year an audit was undertaken on the effectiveness of the risk management process in identifying key risks to achievement of the Agency's objectives. The audit concentrated on frontline services namely the operational territories and business units. It identified that the risk management process was being adhered to and that risks were being regularly identified and reviewed. However, the risk methodology in use was not highlighting the Agency's real risks and focusing on appropriate mitigation actions. The Agency acknowledges the issues raised and has developed an approach to strengthen its application of risk management. This will be delivered via the introduction of an ongoing risk improvement plan during the forthcoming year.

The development and subsequent implementation of the Operational Improvement Plan resulted in a temporary degradation in the ability of the organisation to identify risks and develop suitable mitigation plans. Only limited assurance was therefore obtained from the audit of frontline services.

The Agency also contributed to a Departmental risk assessment exercise during the year and identified a number of areas for improvement.

A full review of the Agency's business continuity management process was undertaken to assess its effectiveness identifying a number of areas for improvement.

6. Significant internal control problems

Significant control weaknesses identified in the Operation Improvement Plan and the 2005/06 Annual Assurance Report are:

- Governance
- Client Funds Account Qualification
- Performance
- Compliance
- Management Information
- Information Technology and Security

Action plans have been developed to address each of these.

- **Governance -** The Standards Committee has not met since September 2005 due to the departure of its Chairperson. The Standards Committee will be reformed during 2006/07. The upkeep and monitoring of governance products such as the corporate governance framework document have effectively been put on hold during the year due to the strategic review and the uncertainty in the new organisational structure. These will be re-established during 2006/07 and updated with the emerging information from the Operational Improvement Plan and monitored through the Audit Committee and newly formed Standards Committee. Managerial letters of assurance provided assurance during the majority of the year, but following the strategic review and subsequent implementation of the Operational Improvement Plan, changes were required to support the new organisational structure. As a result, Letters of Assurance were not provided by all members of the newly appointed Executive Team. For the financial year 2006/07 the process has been revised to fully support the new organisation. As the Agency developed its Operational Improvement Plan, and identified the associated risks, it was necessary for the Risk Assurance Division to develop an internal audit work plan for the year independently. The work plan is aligned to the Departmental strategic risk register and based on risks identified by the Agency's Executive Team. Work is ongoing to revise the Agency strategic risk register in line with Departmental standards.
- **Client Funds Account Qualification -** The Audit Committee also recognised that the Client Funds Account had again been qualified on the basis of misstatement of amounts due over a number of years which have led to inaccuracies in the outstanding debt balances. The Agency is developing plans as part of the Operational Improvement Plan to address this issue however a combination of actions would be required to remove the qualification and necessary elements such as a change in policy with regard to writing off debt are not incorporated within the Operational Improvement Plan. The second qualification has been removed in respect of the inaccuracies over the receipts and payments because of a decrease in the volume of high value errors.

  Significant work is underway to identify the issues and produce solutions. In addition, to increase focus on financial controls the Client Funds Account team has been incorporated within the Agency's Finance and Business Assurance Directorate.
- **Performance -** Well documented problems with the Agency's computer systems and processes have meant that its clients have not been able to take full advantage of the new legislative framework, and the Agency continues to under perform against its targets. However, the Agency has started to increase

enforcement activity by taking more cases to court for action than ever before. More resources are being put into this area with the size of enforcement teams planned to quadruple over the 3-year timeframe of the Operational Improvement Plan.

- **Compliance -** Compliance with both procedures and guidance are below target. This is a result of non-standardised cumbersome operational processes and insufficient resources focused on direct case progression with no capability to allow more experienced caseworkers to deal with complex cases. This is being addressed through the Operational Improvement Plan.
- **Management Information -** Lack of robust management information has been an ongoing issue for the Agency, resulting in an inability to measure performance. During 2005/06 managers were reliant on a mixture of inaccurate system generated management information and fallible clerically generated management information. Work is ongoing to address this issue with significant improvements being made through a management information improvement project, which has successfully developed and delivered meaningful and accurate management information. Improvements in management information are a key part of the Operational Improvement Plan and further results are expected over the 3-year timeframe of the plan.
- **Information Technology (IT) –** The Agency has major problems with IT systems, and a prioritised programme of work has been agreed with the IT supplier to rectify some of the remaining problems and to support other changes throughout the timeframe of the Operational Improvement Plan. The current release schedule provides for the rectification of 212 defects associated with the top 17 categories of stuck cases. These defects are amongst the 506 agreed defects that require resolution under the terms of the Department's commercial settlement with EDS achieved in August 2005. The remaining 294 defects will also need to be addressed in this plan.

  During the year an identified system problem meant that, on a small number of cases with rare characteristics, incorrect underlying calculations were posted within the system. Amounts receivable from the non-resident parent were calculated correctly but the related commitments to parents with care and the Secretary of State were misstated. A fix has been made to the system to deal with the underlying problem and therefore prevent any future calculations of this nature.

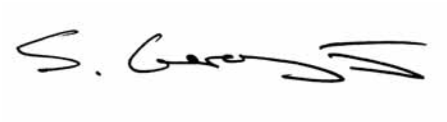
  Significant operational risks were raised and escalated to the central risk team in the first quarter of 2005/06 concerning a lack of resources to deal with system incidents, manual payment requests and the ability to resolve user errors impacting on client cases. This is being addressed within the Agency's Operational Improvement Plan and also, is an integral part of the Departmental Transforming EDS Services (TREDSS) initiative.
- **IT Security –** The Agency experienced problems related to the production of Departmental Central Index (DCI) test checks. An incident has been raised but remains a significant risk until it is resolved. There is concern with the lack of progress and delays around the development of an effective audit trail reducing the assurance level over the assessment of the Agency's performance in this area from substantial to limited as a result. There are planned computer upgrades to correct this.

These areas will be addressed through the implementation of the Operational Improvement Plan.

In acknowledging and identifying issues, it is equally important to recognise that the Agency has helped many people. Last year over £600 million was collected by the Agency. This excludes the maintenance generated from a further 100,000 cases where the Agency has made an assessment, but the maintenance is paid directly between parents in the form of 'maintenance direct'. By the end of this year the Agency will have collected over £5 billion since it was formed.

The Agency published new client service standards in April 2006. Benefits realised from the Operational Improvement Plan will be regularly monitored during the year to ensure that progress is made.

Signed



Stephen Geraghty
Accounting Officer

19 July 2006

Child Support Agency Client Funds Account The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the Child Support Agency Client Funds Account for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. This comprises the Receipts and Payments account, Statement of Balances and notes relating to receipts and payments and the debt position. This account has been prepared on a cash basis in the form directed by HM Treasury.

Respective responsibilities of the Agency, the Chief Executive and Auditor

The Agency and Chief Executive are responsible for preparing the account in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Agency's and Chief Executive's Responsibilities.

My responsibility is to audit the account in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the account properly presents the receipts and payments and whether the account has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder. I also report whether in all material respects the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Foreword is not consistent with the Client Funds Account, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 57 to 62 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited Client Funds Account. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the account. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the account. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the account and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the account is free from material misstatement, whether caused by fraud or error and that, in all material respects, conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the account.

Qualified opinion arising from disagreement about accounting treatment

During my audit I found that amounts due at 31 March 2006 from non-resident parents in respect of maintenance assessments were misstated mainly because of combinations of errors made in 2005/06 and earlier years. I estimate that the balance outstanding in respect of maintenance calculations and full maintenance assessments, shown at note 6.1 as £1,038.4 million, includes overstatements of £43.6 million and understatements of £31.5 million. I also estimate that the balance outstanding in respect of default maintenance decisions and interim maintenance assessments, shown at note 6.1 as £374.6 million, includes overstatements of £2.4 million and understatements of £1.4 million.

In my opinion:

- except for adjustments needed to correct the overstatements and understatements in the maintenance balances shown at note 6, the Child Support Agency's Client Funds Account properly presents the receipts and payments for the year ended 31 March 2006 and balances as at that date;
- the account has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder; and
- in all material respects the financial transactions conform to the authorities which govern them.

Details of these matters are set out in paragraphs 13 to 20 of my report.

John Bourn
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

20 July 2006

Child Support Agency: Client Funds Account 2005/06

Receipts and payments for the year ended 31 March 2006

	Notes	2005/06 £'000	2004/05 £'000
Receipts	2	608,931	602,873
Bank interest	3	1,036	950
Total receipts		**609,967**	**603,823**
Less payments to:			
persons with care	2	502,332	471,758
Secretary of State	2	109,283	119,199
non-resident parents/employers	2	7,994	8,563
the Agency (CSA fees and court fees)	2	2	3
Total payments		**619,611**	**599,523**
Net (payments)/receipts		**(9,644)**	**4,300**
Balance as at 1 April 2005	4	**23,799**	**19,499**
Balance as at 31 March 2006	4	**14,155**	**23,799**

Statement of balances at 31 March 2006		31 March 2006 £'000	31 March 2005 £'000
Funds awaiting clearance	4	7,739	9,610
Cleared funds awaiting distribution	4	6,416	14,189
Balance on bank account		**14,155**	**23,799**

The notes on pages 66 to 72 form part of this account.

Signed

Stephen Geraghty
Chief Executive

19 July 2006

Notes to the Client Funds Account

In relation to the Receipts and Payments statement

Note 1 Accounting basis

1.1 This Account has been prepared on a cash basis and in the form directed by HM Treasury..

Note 2 Receipts and payments

2.1 Receipts from clients relate to child maintenance and fees collected by the Agency for payment to parents with care of children (maintenance) or to the Secretary of State (maintenance) and to the Agency (fees).

2.2 The maintenance received quoted in the Client Funds receipts and payments account is different from the receipts total shown in movements on amounts outstanding (see Notes 6.1 and 6.2). This is due, for example, to timing differences and the exclusion of non-maintenance receipts in the amounts shown in the notes.

2.3 Money is also received from the Secretary of State to refund non-resident parents in cases where an overpayment has been made and the amount is irrecoverable. This totalled £3.887 million (2004/05, £5.468 million) and is disclosed in Note 3 of the Administration Accounts.

2.4 Included in the £502.332 million (2004/05, £471.8 million) paid to the parents with care is £1.177 million (2004/05, £1.3 million) paid to Northern Ireland Child Support Agency to fund payments made on our behalf.

Note 3 Interest received and paid

3.1 The Agency receives interest on balances deposited in the Client Funds bank account. Parents with care may, in specific circumstances, be entitled to receive interest payments. Of the £1.036 million (2004/05 £0.95 million) interest received, £0.074 million (2004/05, £0.038 million) was paid to parents with care. The balance of £0.962 million (2004/05, £0.912 million) was paid to the Secretary of State.

Note 4 Balances on the Client Funds Account

4.1 The balances relate to sums collected and interest received which had not been paid over at year end.

In relation to the debt position

Note 5 Amounts outstanding at 31 March 2006

5.1 Under the Accounts Direction issued by HM Treasury, the Agency is required to disclose the balances outstanding from non-resident parents under maintenance assessments at the year end, together with the movements in the balances outstanding between the beginning and end of the year.

5.2 There are four types of maintenance assessments:

- full maintenance assessments – where the old rules apply and both the parent with care and the non-resident parent provide the Agency with all the information requested;
- interim maintenance assessments - where the old rules apply and the Agency is unable to obtain sufficient information to make a full maintenance assessment;

- maintenance calculation - where the new rules apply and both the parent with care and the non-resident parent provide the Agency with all the information requested; and
- default maintenance decision – where the new rules apply and the Agency is unable to obtain sufficient information to make a maintenance calculation.

5.3 The majority of interim maintenance assessments are set at punitive rates to encourage compliance and take no account of non-resident parents' ability to pay.

5.4 Where the Agency is in contact with a non-resident parent, for whom an interim maintenance assessment has been imposed, a proportion of the amount outstanding may prove collectable. This is particularly likely where the non-resident parent is co-operating and the Agency is able to replace the interim maintenance assessment with a full maintenance assessment.

5.5 Where an interim maintenance assessment has been imposed on or after 18 April 1995, the subsequent full maintenance assessment will be backdated and will replace the interim maintenance assessment. Any amounts collected under the interim maintenance assessment will be offset against the full maintenance assessment debt due.

5.6 A default maintenance decision is a calculation based on a weekly average wage and is not set at punitive rates.

Collectability of amounts outstanding

5.7 The Agency undertook a debt analysis exercise to establish the collectability of amounts outstanding as at 31 March 2006. This analysis established three categories of amounts outstanding, i.e. collectable, possibly uncollectable and probably uncollectable. The results of the exercise are shown in Note 6.3(vii).

Collectable

Amount outstanding which the debt analysis exercise revealed is likely to be collected. This takes into account factors such as regular contact with the non-resident parent, where regular payments are being made or an arrears agreement has been set up.

Possibly uncollectable

Amount outstanding which the debt analysis exercise revealed some uncertainty over whether it will be collected. The amounts are considered doubtful where, for example, payments have been infrequent or it has not been possible to establish an arrears agreement or impose a deduction of earnings order.

Some of the possibly uncollectable amounts have been reduced in year. A provision has been calculated, assessing the difficulty of collecting each element of the debt. Where it is likely to be difficult to collect, due for example to unsuccessful attempts to trace a client for over two years, a proportion of these amounts has been provided against.

Probably uncollectable

Amount outstanding which the debt analysis exercise revealed is likely to be very difficult to collefct due, for example, to the lack of contact with, or the personal circumstances of, the non-resident parent. In many of these cases the Agency has suspended recovery action until such time as the individual's circumstances change.

The probably uncollectable amounts have been fully provided against in year.

5.8 The amounts outstanding on individual cases continue to be due in full. The Agency will continue to consider any new facts brought to its attention regarding collectability and has not waived its discretion to take action in the future to collect any amount outstanding which becomes collectable.

Note 6 Debt position at 31 March 2006

6.0 The debt disclosure has been changed from previous years to show the consolidated position of both old and new scheme debt held on the legacy and new computer systems. The comparative balances have been restated in this format to make it easier to understand fully the debt due to the Agency.

6.1 Debt Balances as at 31 March 2006

	Notes	Maintenance Calculation / Full Maintenance Assessments			Default Maintenance Decision / Interim Maintenance Assessments			Consolidated Debt Position		
		New scheme £'000	Old scheme £'000	Total £'000	New scheme £'000	Old scheme £'000	Total £'000	New scheme £'000	Old scheme £'000	Total £'000
Opening gross debt balances on :										
Legacy system		-	1,388,384	1,388,384	-	1,075,186	1,075,186	-	2,463,570	2,463,570
New system		117,410	409,117	526,527	11,203	251,490	262,693	128,613	660,607	789,220
Balance as at 1 April 2005	(i)	**117,410**	**1,797,501**	**1,914,911**	**11,203**	**1,326,676**	**1,337,879**	**128,613**	**3,124,177**	**3,252,790**
Reclassification of prior year	(ii)	-	125,701	125,701	-	(125,701)	(125,701)	-	-	-
Maintenance charged in year :										
Legacy system	(iii)	-	281,114	281,114	-	(53,441)	(53,441)	-	227,673	227,673
New system	(iii)	269,536	239,281	508,817	10,394	89,561	99,955	279,930	328,842	608,772
Total Amounts Due	(iv)	**386,946**	**2,443,597**	**2,830,543**	**21,597**	**1,237,095**	**1,258,692**	**408,543**	**3,680,692**	**4,089,235**
Less Maintenance Received in year :										
Legacy System		-	(341,305)	(341,305)	-	(6,317)	(6,317)	-	(347,622)	(347,622)
New System		(161,417)	(81,741)	(243,158)	(1,030)	(1,546)	(2,576)	(162,447)	(83,287)	(245,734)
Agency payments of deferred debt		-	(623)	(623)	-	-	-	-	(623)	(623)
Gross Debt as at 31 March 2006	(v)	**225,529**	**2,019,928**	**2,245,457**	**20,567**	**1,229,232**	**1,249,799**	**246,096**	**3,249,160**	**3,495,256**
Less :										
Provision for Possibly Uncollectable Debt	(vi)	(9,901)	(66,522)	(76,423)	(886)	(76,347)	(77,233)	(10,787)	(142,869)	(153,656)
Provision for Probably Uncollectable Debt	(vi)	(54,514)	(1,076,099)	(1,130,613)	(11,205)	(786,782)	(797,986)	(65,719)	(1,862,881)	(1,928,600)
Net debt balance as at 31 March 2006	(vii)	**161,114**	**877,307**	**1,038,421**	**8,476**	**366,103**	**374,579**	**169,590**	**1,243,410**	**1,413,000**

6.2 Debt Balances as at 31 March 2005

		Maintenance Calculation / Full Maintenance Assessments			Default Maintenance Decision / Interim Maintenance Assessments			Consolidated Debt Position		
	Notes	New scheme £'000	Old scheme £'000	Total £'000	New scheme £'000	Old scheme £'000	Total £'000	New scheme £'000	Old scheme £'000	Total £'000
Opening gross debt balances on :										
Legacy system		-	1,482,011	1,482,011	-	1,079,591	1,079,591	-	2,561,602	2,561,602
New system		35,171	239,548	274,719	3,337	152,211	155,548	38,508	391,759	430,267
Balance as at 1 April 2004	(i)	**35,171**	**1,721,559**	**1,756,730**	**3,337**	**1,231,802**	**1,235,139**	**38,508**	**2,953,361**	**2,991,869**
Maintenance charged in year :										
Legacy system		-	322,677	322,677	-	3,571	3,571	-	326,248	326,248
New system		171,928	239,843	411,771	8,813	100,053	108,866	180,741	339,896	520,637
Total Amounts Due	(iv)	**207,099**	**2,284,079**	**2,491,178**	**12,150**	**1,335,426**	**1,347,576**	**219,249**	**3,619,505**	**3,838,754**
Less Maintenance Received in year :										
Legacy System		-	(415,793)	(415,793)	-	(7,976)	(7,976)	-	(423,769)	(423,769)
New System		(89,689)	(70,234)	(159,923)	(947)	(774)	(1,721)	(90,636)	(71,008)	(161,644)
Agency payments of deferred debt		-	(551)	(551)	-	-	-	-	(551)	(551)
Gross Debt as at 31 March 2005	(v)	**117,410**	**1,797,501**	**1,914,911**	**11,203**	**1,326,676**	**1,337,879**	**128,613**	**3,124,177**	**3,252,790**
Less :										
Provision for Possibly Uncollectable Debt	(vi)	-	-	-	-	-	-	-	-	-
Provision for Probably Uncollectable Debt	(vi)	(28,507)	(1,017,244)	(1,045,751)	-	(938,661)	(938,661)	(28,507)	(1,955,905)	(1,984,412)
Net debt balance as at 31 March 2005	(vii)	**88,903**	**780,257**	**869,160**	**11,203**	**388,015**	**399,218**	**100,106**	**1,168,272**	**1,268,378**

6.3 The following notes explain movement from the opening gross debt position to reported Net Debt balance.

i) Balance as at 1 April 2005

The opening balances show the gross debt position as at 1st April 2005.

ii) Reclassification of prior year

Debt balances have been reclassified in year on the legacy system to more properly reflect amounts relating to interim maintenance assessments from April 2003 to 31 March 2005.

iii) Maintenance charged in year legacy system

The negative balance against maintenance charged in year is a consequence of:

- no new cases being progressed on legacy system,
- the value of debt migrating from the legacy system exceeds amounts charged in year on the remaining caseload.

There is no impact from a consolidated position as the reduction in the legacy system corresponds with the increase of the new system. The format of the debt note has been revised to provide transparency of this debt movement.

iv) Total Amounts Due

Total amounts due is the total debt managed by the Agency and is made up of:

- initial amounts comprising of all money due from the date the maintenance enquiry form is issued until the assessment is made for old scheme cases;
- movements in outstanding debt balances. The movements include amounts that have:
    - migrated from the legacy Child Support Computer System (CSCS) to the new computer system, (CS2);
    - amounts previously classified as interim maintenance assessments;
    - outstanding maintenance transferred to and from the Child Support Agency Northern Ireland.
- and reduced by adjustments arising from cancelled or terminated assessments or where the liability has been reduced, for example because there has been a direct payment between parties which is offset against the maintenance due.

v) Gross Debt as at 31 March 2006

The Gross Debt figure is the amount of debt carried by the Agency after receipts of maintenance and deferred debt have been deducted. The total of receipts received is £593 million (2004/05, £585 million).

From April 1995 the Agency has been able to defer some debt indefinitely, provided non-resident parents meet certain conditions on payment of regular maintenance and the remaining debt outstanding. In these cases, the Agency can settle the deferred debts with the parents with care out of money provided by the Exchequer and take over the ownership of the remaining debts. During 2005/06 the Agency paid £0.623 million (2004/05, £0.551 million). These payments match the deferred debt payments shown at Note 3 of the Administration Accounts and are accounted for on an accruals basis.

(vi) Provisions

The Agency has reviewed the debt balances through the debt analysis exercise. In line with current accounting practice, provisions have been calculated against the elements of debt which are not deemed to be collectable, and the amounts have been provided against.

In these accounts a provision against possibly uncollectable debt has been introduced. In previous years a provision of 0% had been applied but following further analysis the Agency has determined that part of this debt is not collectable and an additional amount has been provided against.

The debt provided against is excluded from the year-end net debt balance, but the individual debt balances continue to be due in full.

Movement in Provisions

	Consolidated Debt Position March 2006		Consolidated Debt Position March 2005		Total Movement in Provision	
	New Scheme £'000	Old Scheme £'000	New Scheme £'000	Old Scheme £'000	New Scheme £'000	Old Scheme £'000
Provision for Possibly Uncollectable Debt	(10,787)	(142,869)	-	-	(10,787)	(142,869)
Provision for Probably Uncollectable Debt	(65,719)	(1,862,881)	(28,507)	(1,955,905)	(37,212)	93,024

(vii) Net debt balance as at 31 March 2006

The Net Debt balance is the position as at 31 March 2006 and is an assessment of the collectability of the debt due to the Agency.

Analysis of collectable debt balances (see note 5.7)

Collectability		Old Scheme		New Scheme		Total	
		31 March 2006 £'000	31 March 2005 £'000	31 March 2006 £'000	31 March 2005 £'000	31 March 2006 £'000	31 March 2005 £'000
Collectable	Value of Debt	629,269	537,709	87,059	100,106	716,238	637,815
	% of Debt	50.61%	46.03%	51.34%	100%	50.70%	50.29%
Possibibly Uncollectable	Value of Debt	588,833	599,564	82,531	-	671,364	599,564
	% of Debt	47.36%	51.32%	48.66%	-	47.51%	47.27%
Deferred Debt	Value of Debt	25,308	30,999	-	-	25,308	30,999
	% of Debt	2.03%	2.65%	-	-	1.79%	2.44%
Total Debt		**£1,243,410**	**£1,168,272**	**£169,590**	**£100,106**	**£1,413,000**	**£1,268,378**

Child Support Agency Client Funds Account 2005/06

Report by the Comptroller and Auditor General

Introduction

1. Under the Government Resources and Accounts Act 2000 I am required to examine and certify the Child Support Agency Client Funds Account and report the results to Parliament. This report provides a summary of the significant matters arising from my examination and resulting qualification of the 2005/06 Account.

2. The format of my Report is consistent with that which I have issued in the last two years with my observations reflecting the two rules of operation that exist within the Child Support Agency (the Agency); the 'old rules' cover cases administered under arrangements dating back to the inception of the Agency in 1993 and the 'new rules' cover cases administered after the introduction of the Child Support Reforms in March 2003, together with cases migrated from the old rules to the new rules since their introduction. This distinction is important as the two sets of rules are very different both in their application to customers and the systems that administer them.

3. In my previous reports I have indicated that the Child Support Reforms (the Reforms) were designed to lead to an improved level of service for the Agency's customers, but that difficulties in their implementation meant the Agency was still to realise the anticipated benefits of the Reforms. In my recent report *Child Support Agency – Implementation of the Child Support Reforms HC1174* I reported that the Child Support Reform programme was formally closed in October 2005 having failed to deliver the improvements in customer service and administrative efficiency which might have been expected. I further concluded that the Reforms were a final, but in the event unsuccessful, attempt to deliver the policy that lead to the establishment of the Agency in 1993.

4. On 9 February 2006 the Secretary of State for Work and Pensions signalled a major overhaul of child support. He announced that he had asked Sir David Henshaw to develop proposals for the future to provide the best possible arrangements to ensure more children receive the child support to which they are entitled. The proposals for re-designed child support are expected to provide options for the longer term policy and delivery arrangements and are due to be delivered to the Secretary of State in summer 2006. It is in this context that I now report the findings and my opinion on the 2005/06 Client Funds Account.

Background

5. The Agency is an Executive Agency of the Department for Work and Pensions (the Department). It was established in 1993 and is responsible for implementing the 1991 and 1995 Child Support Acts and part of the Child Support, Pensions and Social Security Act 2000. Its main purpose is to ensure that non-resident parents meet their financial responsibilities towards their children. As part of this process the Agency:

   - calculates appropriate levels of maintenance to be paid by non-resident parents;
   - collects payments from non-resident parents and passes them on to the parents

with care, or the Secretary of State where the parent with care is in receipt of Income Support or income-based Jobseeker's Allowance;

- carries out work to ensure that non-resident parents comply with their maintenance obligations; and
- amends calculations to reflect the changing circumstances of either parent.

6. Prior to the introduction of the Child Support Reforms in March 2003 all applications for child support maintenance were assessed under the 'old rules' against formulae that required Agency staff to obtain up to 100 pieces of information about the personal circumstances of both the non-resident parent and the parent with care. It involved gathering many separate pieces of information about income, housing costs and other expenses from clients who may have been reluctant to provide this information. The complexity of this process contributed to significant levels of error in maintenance assessments. Further, the basis of maintenance assessments was not transparent to customers often leading to disputes and long delays before maintenance was assessed and paid.

7. After the Reforms a much simplified set of rules was applied for maintenance calculation, combined with revised administrative arrangements aimed at securing better engagement with parents together with a faster turnaround of applications and more accurate assessments. However, the successful implementation of the Reforms required significant business restructuring, an improved culture of compliance with standard processes and new computer and telephony systems. In my report *Child Support Agency – Implementation of the Child Support Reforms HC1174* I explain how and where this implementation failed and why, therefore, there has been limited success in reducing historic error rates and improving service delivery. Performance targets for cases processed under the new rules are not being met, nor are they matching performance under the old rules (Figure 1).

Figure 1: Performance in 2005-06 against key targets and prior year

	2005-06				2004-05			
Performance measure	**New Rules**		**Old Rules**		**New Rules**		**Old Rules**	
	Target	**Achieved**	**Target**	**Achieved**	**Target**	**Achieved**	**Target**	**Achieved**
Case Compliance(1)	78%	67%	75%	75%	78%	66%	75%	72%
Cash Compliance(2)	75%	63%	68%	75%	75%	61%	68%	73%
Last Decision Accuracy(3)	90%	81%	82%	84%	90%	75%	82%	78%
Full Assessment Accuracy(4)	-	79%	-	77%	-	73%	-	71%

Source: Performance measures (1), (2) and (3) form part of the Key Ministerial Targets disclosed in Annex 1 to the 2005/06 Child Support Agency Annual Report. Performance Measures (4) sourced from the Child Support Agency.

Notes:

[1] Case Compliance is defined as 'Child maintenance and/ or arrears will be collected where there is maintenance liability due to be paid through the collection service from 78% of cases' for new scheme assessments, and 'To collect child maintenance and arrears from 75% of non-resident parents with liability due to be paid through the Agency's collection service' for old scheme assessments.

[2] Cash Compliance (New Scheme) is defined as 'To collect 75% of child maintenance and/ or arrears where there is a maintenance liability due to be paid through the collection service'.

[3] Last Decision Accuracy reflects the last decision taken on each case. For new scheme this is defined as 'accuracy on the last decision for all maintenance calculations to be correct to the nearest penny in at least 90% of cases'. For old scheme this is defined as 'accuracy on the last action for all assessments checked in the year to be correct to the nearest penny in at least 82% of cases'.

[4] This is the accuracy of assessments through the life of a case. Figures for 2005/06 refer to the accuracy of the last full assessment that has been made on the case.

8 In considering the implications of these performance difficulties for the Account the National Audit Office examine a large representative sample of individual cases re-performing the assessments made and validating the findings of their re-performance work with the Agency. The results of this exercise are then extrapolated to derive an estimate of any resulting error on the Account. The results of the 2005/06 extrapolations are set out in Figure 2.

Figure 2: Estimate of errors in the Client Funds Account 2005/06

	Estimated Overpaid/ overstated (£ million)	Estimated Underpaid/ understated (£ million)
Payments by non-resident parents	3.6	3.9
Level of recoverable debt as at 31 March 2006 relating to full maintenance assessments and maintenance calculations[1]	43.6	31.5
Level of recoverable debt as at 31 March 2006 relating to interim maintenance assessments and default maintenance decisions[1]	2.4	1.4

[1] Defined in paragraph 14 of this report.

Receipts and Payments

9. In 2005/06 the Agency received £609 million from non-resident parents and made payments of £502 million to parents with care. In addition, £109 million was transferred to the Secretary of State where parents with care were in receipt of Income Support or income-based Jobseeker's Allowance and the Secretary of State had taken action to recover child support maintenance from the non-resident parents.

10. The National Audit Office sample of receipts from non-resident parents during 2005/06 for onward transmission, mainly to parents with care, indicated that 21 per cent of the cases were incorrect mainly due to errors in the underlying assessments. That is an accuracy rate of 79 per cent and accords with the

Agency's own performance measures in Figure 1. The Agency's Monitoring and Guidance Unit that generates these figures has reported an accuracy rate of 77 per cent for the last full assessment under the old rules and 79 per cent for cases under the new rules. It has also reported on the accuracy of the last decision taken on each case as 84 per cent under the old rules and 81 per cent for cases under the new rules.

11. The sampling techniques used have allowed the National Audit Office to extrapolate the results of their testing to provide a quantified estimate of the likely level of monetary error in the receipts and payments account. As a result, estimated overpayments by non-resident parents amounted to £3.6 million (0.6 per cent of total receipts) while underpayments amounted to £3.9 million (0.6 per cent of total receipts).

12. This represents a critical improvement on previous years because the values involved are sufficiently low for me to conclude that they do not indicate a material mis-statement in the presentation of the receipts and payments account. This allows me to not repeat my long standing qualification in respect of the total of estimated over and under payments by non-resident parents. High levels of compliance error do still occur, as demonstrated in Figure 1, but for the actual receipts collected in the year, as disclosed in the receipts and payments account, the monetary value of the individual errors is, on average, lower than before. This improvement may at first glance appear at odds with some of my observations in the report *Child Support Agency – Implementation of the Child Support Reforms HC1174*, but it is not. The assessments which are most relevant to my opinion on the receipts and payment account are those where in-year contributions have been received, these being the active cases where the Agency has an on-going communication with the non-resident parent. Because of the on-going communication these cases are easier to action and ensure a reasonable level of accuracy. This is not necessarily the case for the more historic assessments where no receipts have been collected, often because the case is dormant because of on-going disputes or loss of contact with the non-resident parent.

Amounts owed at 31 March 2006

13. The Agency is not allowed to write off debt under the provisions of current legislation. Consequently the gross debt outstanding has accumulated over the period since the Agency's inception in 1993. At 31 March 2006 the gross debt outstanding (before taking account of the provisions for bad and doubtful debt) was £3,495 million. The net debt outstanding at 31 March 2006 (which has been offset by the provisions for bad and doubtful debt) was £1,413 million. This was due to be collected by the Agency from non-resident parents for payment mainly to parents with care.

14. The high level of debt associated with maintenance assessments for which payments have not been made in full is classified as:

- Full maintenance assessment - where a complete assessment has been made under the old rules and both the parent with care and the non-resident parent provide the Agency with all the information requested;

- Maintenance calculation – where a complete maintenance calculation has been made under the new rules and both the parent with care and the non-resident parent provide the Agency with all the information requested;

- Interim maintenance assessment - where the old rules apply and the Agency is unable to obtain sufficient information to make a full maintenance assessment; and
- Default maintenance decision – where the new rules apply and the Agency is unable to obtain sufficient information to make a maintenance calculation.

15. As at 31 March 2006 the net amount due from full maintenance assessments and maintenance calculations was £1,038 million, including £161 million of maintenance calculation debt where the new rules apply. The net amount deemed to be recoverable from interim maintenance assessments and default maintenance decisions was £375 million, including £8 million of default maintenance assessment debt where the new rules apply.

16. The National Audit Office checked a representative sample of non-resident parents' maintenance arrears debt balances. This involved re-performance of the assessments and examination of the charges, transactions and adjustments made throughout the lifetime of each case. The review criterion considered both the assessment accuracy and the effective dates of calculated awards. This examination identified errors in:

    - 55 per cent of full maintenance assessment and maintenance calculation balances; and
    - 39 per cent of interim maintenance assessment and default maintenance decision balances.

17. Of the £1,413 million total net debt owed at 31 March 2006, the National Audit Office estimates that the stated £1,038 million considered recoverable as at 31 March 2006 from non-resident parents for full maintenance assessments and maintenance calculations is likely to include overstatement errors amounting to an estimated £43.6 million (4.2 per cent of the total) and understatement errors amounting to an estimated £31.5 million (3 per cent of the total).

18. Similarly the National Audit Office estimates that the stated £375 million considered recoverable as at 31 March 2006 from non-resident parents in respect of interim maintenance assessments and default maintenance decisions is likely to include overstatement errors amounting to an estimated £2.4 million (0.6 per cent of the total) and understatement errors amounting to £1.4 million (0.4 per cent of the total).

19. In light of these results, I have concluded that the amounts recorded in the Account as being considered recoverable from non-resident parents as at 31 March 2006 are materially mis-stated, and I have qualified my opinion on the Account in respect of these amounts.

Audit Opinion and Conclusion

20. For the 11th successive year I have qualified my opinion on the Account because a significant proportion of individual debt balances were found to be incorrect (paragraphs 16 to 19). This was mainly because of historic errors in the underlying maintenance assessments. In contrast to this I am very pleased to give a clear opinion on the actual receipts and payments disclosed in the Account, which in broad terms has been brought about by a reduction in the volume of high value maintenance assessment errors for those cases where payments were collected in the year from non-resident parents.

21. The Operational Improvement Plan which was announced in February 2006 aims to address some of the more historic problems that still beset the Agency and result in the remaining qualification. Time together with the outcome of the proposals to be made to the Secretary of State for Work and Pensions by Sir David Henshaw on re-designed child support will determine if they succeed.

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