



Department
for Work &
Pensions

Client Funds Account 2019/20

2012 Child Maintenance Scheme

Presented to the House of Commons pursuant to Section 7 of the Government
Resources and Accounts Act 2000

Ordered by the House of Commons to be printed 16 December 2020

HC 1033



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Foreword

The Department for Work and Pensions (the Department, DWP) is responsible for the management of client funds relating to both the 2012 statutory child maintenance scheme operated by the Child Maintenance Service (CMS) and 1993 and 2003 schemes delivered by the Child Support Agency (CSA), collectively known as the Child Maintenance Group (CMG). These schemes support children by arranging maintenance and where the collection service is used, paying funds obtained from the Paying Parent to the Receiving Parent after relevant charges have been deducted.

The Department is required, by Her Majesty's Treasury, to publish Client Funds Accounts which are separate from the accounts for the rest of its activities. This account reports on the 2012 statutory scheme, with the 1993 and 2003 statutory schemes being reported separately in their own account publication. This provides more clarity for the reader and allows the Comptroller and Auditor General to provide an independent opinion on each of the Accounts.

The opinions for this account are given by the Comptroller and Auditor General in the audit certificate, with rationale for these opinions explained in his report. Since 2016/17, the accuracy with which DWP caseworkers assessed child maintenance has been at a level where he and his predecessor have been able to issue an unmodified opinion on the regularity of receipts and payments for the 2012 child maintenance scheme. While the Department has seen accuracy levels slip slightly during this financial year, the Comptroller and Auditor General has issued an unmodified opinion on the Account for 2019/20. The Comptroller and Auditor General's opinion on whether the accounts properly present receipts, payments, balances and arrears and have been properly prepared is, as in previous years, unqualified, and is accompanied by a Report on Account to provide an explanation of both the reduction in accuracy and future challenges facing the 2012 Scheme. Further information on accuracy can be found in section 2.2 of the Governance Statement.

Peter Schofield
Principal Accounting Officer

Date: 10 December 2020

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Management commentary

1.1 Major reforms

The Department provides support for parents to set up an arrangement that works for them. Parents are given the tools and support needed to make their own private Family Based Arrangement where this is possible, with little or no government support at all. A child maintenance calculator is available online to estimate what might be a reasonable amount of child maintenance to pay.

The Department also recognises that not all parents are in a position to come to such collaborative arrangements and may need extra help. The CMS provides the statutory child maintenance scheme, to be used as a last resort where parents are unable to work together or will not meet their responsibility to pay maintenance for their children voluntarily.

Before accessing the statutory child maintenance scheme, separated parents are required to contact Child Maintenance Options, a free service that provides impartial information and support to help them make informed choices about their child maintenance arrangements. In August 2019 a new online Options service was launched, which continues to be reviewed and improved.

Within the statutory scheme, CMS operate two service types: Direct Pay and Collect and Pay.

For the Direct Pay service, CMS calculates the amount of child maintenance that a Paying Parent must pay and the case is managed on the CMS system, but parents must agree between themselves how the money will be paid: the CMS provides the calculation and no further use of the service is required. CMS review the maintenance calculation every year to ensure the amount of maintenance assessed is correct. Direct Pay can be chosen by either parent with the other's agreement.

For the Collect and Pay service, CMS calculates the amount of child maintenance, then collects the payment from the Paying Parent and pays it to the Receiving Parent. Clients must pay fees for using the Collect and Pay Service. The Paying Parent must pay 20% on top of the maintenance amount due, whilst the Receiving Parent has 4% deducted of the maintenance amount. Collect and Pay is used in circumstances where the Paying Parent has failed to pay maintenance or has indicated that they are unwilling to pay.

Receipts and Payments reported in these accounts relate only to Collect and Pay cases.

Child maintenance has undergone major reform over recent years with the creation of the CMS and the phased closure of the former CSA. This has ended the 'default' nature of the old service, with collaboration between separated parents at the centre of the reforms, enabling delivery of an effective, efficient statutory scheme.

These reforms are now nearing conclusion. All CSA cases have been closed: those cases with ongoing liabilities were closed by the end of 2018, while those with arrears that either have not gone through the representation process¹ or where the Receiving Parent has requested an attempt at collection, have transitioned to the CMS 2012 system. The Department continues to focus on completing the implementation of its Compliance and Arrears Strategy which commenced in December 2018.

The key principles underpinning the Compliance and Arrears Strategy are to tackle historic arrears built up on CSA systems and introduce tougher new measures on CMS to prevent arrears building up.

Implementation of the Compliance and Arrears Strategy is at an advanced stage. New powers are now in place to strengthen CMS collection and enforcement abilities, and the Department has used these powers to apply to the courts to disqualify non-compliant parents from holding a UK passport. This has resulted in the collection of arrears where other enforcement actions have been exhausted and demonstrates that the CMS will take a strong stance against persistent non-compliance.

In April 2019, the Department brought in further changes to deliver a more consistent approach to deductions from benefits, enabling deductions from a wider range of benefits.

To tackle historic increasing arrears on the old CSA schemes the Department has, since December 2018, been contacting parents affected by historic arrears and offering a final attempt to collect the debt, where collection is likely to be cost effective. All debt owed to the Secretary of State accrued in the CSA has been written off as collecting this debt would not have benefitted families.

This action to write off uncollectable arrears and close CSA cases means the Department can decommission the CSA systems, resulting in savings to the taxpayer and drawing a line under the old scheme. Any remaining arrears are hosted on the CMS2012 system, but reported separately in the CSA Accounts.

Once complete, all cases will be managed by a single, efficient scheme allowing the CMS to focus efforts on supporting those parents most in need and collecting money that will benefit today's children.

1.2 Performance during 2019/20

The CMS caseload at 31 March 2020 including both the Collect and Pay and the Direct Pay services was 515,600² (March 2019, 475,400). This was an increase of 8% since 31 March 2019 and includes cases that closed on the old CSA schemes where those parents subsequently made applications to CMS.

Of the Collect and Pay caseload, 68% (2018/19, 67%) of case groups were contributing towards their current liability, the highest compliance level recorded since the 2012 scheme began. This improvement is a result of the continuation of a concept known as 'Total Enforcement' which ensures everyone in CMG takes appropriate action throughout the lifecycle of a case to drive compliance and secure money for children.

At March 2020, 737,600 children were covered by the CMS: 471,700 through Direct Pay arrangements and 261,100 by arrangements through the Collect and Pay Service. Cases covering 4,800 children had not been assigned as parents were considering which service to

¹ The process whereby clients with outstanding debt inform the Department that they would like CMS to try and collect the debt. This is called 'making representation'.

² <https://www.gov.uk/government/statistics/child-maintenance-service-statistics-data-to-march-2020-experimental>

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use or were in the process of changing service. If payments are not being made by parents using Direct Pay, the Receiving Parent can ask the CMS to step in, the case is changed to Collect and Pay and fees are charged. At March 2020, 39% of Paying Parents were using the Collect and Pay service, a 2 percentage point increase on the previous year.

In the last year, the Department estimates that £933.8 million (2018/19, £824.4 million) was paid between parents. These figures include both funds paid via the Department and voluntary payments where a payment is made directly to the Receiving Parent by the Paying Parent. This estimate assumes that Direct Pay payments due are paid in full and on time by the Paying Parent.

The totals comprise:

- £742.2 million through Direct Pay (2018/19, £658.5 million) and,
- £191.6 million³ through Collect and Pay (2018/19, £165.9 million).

Since the start of the CMS 2012 scheme, the Department estimates that £3,169.3 million (March 2019, £2,235.5 million) has been paid between parents.

1.3 Direct Pay

While payments made through Direct Pay do not flow through the Client Funds bank account they are a key part of the reforms. During the quarter ending March 2020, 67% of Paying Parents were using Direct Pay and 39% were using the Collect and Pay Service; 6% of Paying Parents had used both services during the quarter.

Parents who choose Direct Pay are advised to keep a record of payments in case there are problems. Where payments due under Direct Pay are reported as missed, both clients are asked to provide evidence of the missed payment to the CMS. In cases where it is deemed the Paying Parent has not paid or is unlikely to pay, the case may be changed to Collect and Pay where enforcement tools are available to re-establish compliance and recover any outstanding unpaid maintenance, including any accumulated while the case was classed as Direct Pay. Unless advised otherwise, the Department assumes Direct Pay payments due are paid in full, and on time, by the Paying Parent.

1.4 Collect and Pay

1.4.1 Receipts of child maintenance from Paying Parents

During 2019/20, 2.1 million (2018/19, 1.8 million) individual receipts were received totalling £173.1 million (2018/19, £147.9 million), all of these receipts were received electronically.

³ Although maintenance was arranged utilising the Collect and Pay service, not all payments were received via the Department's collection service as clients can still choose to pay directly.

Additionally, clients with unpaid maintenance using the Collect and Pay service can choose to switch to the Direct Pay service. When this happens the Paying Parent continues to pay any outstanding maintenance to the Receiving Parent, however payments are made directly to the Paying Parent, rather than via the Department.

Receipts quoted within Sections 1.4.1 and 5 (£173.1 million) relate only to those collected by the Department.

1.4.2 Payments of child maintenance to Receiving Parents

During 2019/20, 2.0 million (2018/19, 1.7 million) individual payments were made to Receiving Parents with a total value of £167.0 million (2018/19, £138.8 million). Every payment was made electronically to clients' bank accounts.

Overall in 2019/20, less funds were paid out than were received, due to timing differences and due to the value of refunds to Employers and Paying Parents. Maintenance monies received are paid to Receiving Parents as quickly as possible, subject to normal banking clearance cycles, if a method of payment has been supplied by the Receiving Parent. There are occasions where funds are pending allocation to a case or have been received slightly in advance of when they are due, this led to the CMS holding a cash balance at 31 March 2020 of £11.8 million, equating to 5% of the funds received during the year (31 March 2019, £11.9 million, 7%).

Analysis of cash balances held at year end has allowed a more accurate allocation of the cash balance between CMS and CSA for annual reporting purposes than was possible in previous years. This is described further in Note 3 to the accounts.

1.4.3 Unpaid maintenance

In addition to reporting the receipts and payments of child maintenance, the Department is required to report on amounts that Paying Parents owe to Receiving Parents. This totalled £354.3 million at 31 March 2020 (31 March 2019, £275.5 million).

The client base of the 2012 scheme differs fundamentally from that of previous schemes with more compliant clients choosing to enter into a Family Based Arrangement or avoid charges through using Direct Pay. Despite this, after 8 years of operation, at 31 March 2020, 63% (31 March 2019, 59%) of Child Maintenance arranged through Collect and Pay had been paid, which compared favourably with 50% for the 1993 and 2003 Schemes.

Included in the unpaid maintenance balances is an element which has not yet been requested from the Paying Parent. This occurs because there is a short period between the date of the claim and the first payment being scheduled for payment. At 31 March 2020, this was £4.2 million (31 March 2019, £3.8 million).

At 31 March 2020, 10.0% of child maintenance arranged since the start of the 2012 scheme was outstanding. This measure, which includes unpaid maintenance transferred from Direct Pay if a case has changed service type, has shown a continuous improvement since 2015.

Maintenance owing as a proportion of that raised, including money due to have been paid by Direct Pay, at March:	%
2020	10.0
2019	10.8
2018	12.1
2017	12.5
2016	13.3
2015	17.0

We expect this trend to continue as the Total Enforcement culture continues to be embedded with caseworkers, coupled with the Regulations which came into force in December 2018.

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When a payment is missed, the CMS contacts the Paying Parent to find out why they have not paid and arranges for them to pay what they owe or informs them about possible enforcement action if they do not pay. If the Paying Parent is using the Collect and Pay service, this will happen automatically. If the parents are paying child maintenance using Direct Pay, the Receiving Parent can request that the CMS take action. The CMS can collect unpaid child maintenance in a number of ways. This includes:

- Taking money from the Paying Parent's earnings through a deduction from earnings order/request. The CMS will tell the Paying Parent's employer how much to take from their wages. The employer must then pass on the money or they can be taken to court.
- Taking money directly from the Paying Parent's bank or building society account by deduction order, including from Joint, Business and Partner accounts linked to the Paying Parent.
- Taking the Paying Parent to court. The courts can grant liability orders which allow the parent to be referred to Enforcement Agents who could sell property to pay the unpaid maintenance and any costs. The courts can also apply a charging order which secures the debt against a property and ultimately force the parent to sell property through an order for sale, and use the money to pay off the unpaid maintenance. If these methods fail, the CMS can apply for the courts to disqualify the parent from driving, send them to prison or confiscate the passports of non-compliant Paying Parents.

Funds received through enforcement actions continue to increase month on month.

In addition, an increasing level of referrals are being made to the Financial Investigations Unit to check that the right amount of child maintenance is being paid. These investigations can be criminal investigations to gather evidence to help decide if a parent can be charged using the Crown Prosecution Service. Investigations may also be carried out into why deduction from earning orders are not being successful in collecting child maintenance, and into complex earners who are parents with multiple income streams, company directors and the self-employed. In these cases, the parent may have some control over the way in which their income is paid and the amount of child maintenance they are meant to pay may not reflect the parent's true income.

1.4.4 Collectability

As the level of reported arrears continues to increase, the Department has considered the collectability of all unpaid maintenance.

During 2019/20, there has been a continuing improvement in collection rates using the strengthened enforcement powers that were introduced in December 2018. The Department continues to target unpaid maintenance of all ages and we continue to see a reduction in debt, even in the oldest debt categories.

Analysis of unpaid maintenance by year they originate:	As at March 2019 (£m)	As at March 2020 (£m)
2013/14	0.9	0.8
2014/15	7.0	5.8
2015/16	18.4	15.4
2016/17	44.2	36.5

2017/18	83.7	68.1
2018/19	121.3	99.6
2019/20	-	128.1
Total	275.5	354.3

The Department has continued to increase the focus on tackling unpaid maintenance, moving cases more quickly into enforcement and promoting more reliable methods of payment such as deductions from earnings orders. This has contributed to an increasing trend of year on year, standing at an all-time high compliance rate of 68% at 31 March 2020.

The table below shows that although unpaid maintenance balances are growing, 51.6% of the amount outstanding is being pursued through enforcement work and 7.8% is in surveillance (where a Paying Parent is currently unable to pay and enforcement action would not be appropriate at this time) and we are actively collecting over 38% of scheduled payments.

Unpaid Maintenance Categories	18/19		19/20	
	£m	%	£m	%
Not due*	3.8	1.4%	4.2	1.2%
Scheduled and Paying	101.9	37.0%	135.6	38.3%
Enforcement	150.0	54.5%	182.8	51.6%
Surveillance	11.4	4.1%	27.7	7.8%
Pending allocation to a classification	8.4	3.0%	4.0	1.1%
	275.5	100.0%	354.3	100.0%

*Not due relates to liabilities that have been charged but where the client is not yet due to pay.

Despite the continued efforts of the Department to secure maintenance, there are still a proportion of clients from whom no maintenance has yet been recovered. This proportion is higher for the oldest debt, although represents a much smaller number of clients and value of unpaid maintenance.

Financial Year	% of clients where no maintenance has been collected	Unpaid Maintenance attributable to clients where no collection has been made (£m)
2013/14	15%	0.1
2014/15	9%	0.8
2015/16	9%	1.9
2016/17	8%	4.0
2017/18	6%	6.1
2018/19	6%	8.6
Overall	7%	21.5

The Department's ability to monitor real time changes in the life circumstances of our clients – for example, a new benefit claim or new employment details – means that we have more opportunity than the private sector to establish or enforce compliance through deductions from

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benefits and deductions from earnings. This is particularly prevalent in the current climate, with an increased number of benefit applications being made due to the COVID-19 pandemic. The Department is achieving compliance now from a significant number of Paying Parents who have never paid before through deductions from benefits, albeit at a reduced level, due to lower levels of income. This means that although there are some clients where no maintenance collection has ever been made, the Department does not view this debt as uncollectable at present.

In addition, the Department has significant enforcement powers which are not available in other sectors e.g. order for sale of property, confiscation of driving licenses and passports, which can be utilised when necessary. The most severe also act as a significant deterrent to non-payment. Further work is planned to increase visibility of the Department's powers through advertising campaigns to further increase the deterrent effect.

A proportion of debt is written off each year for 'Business As Usual' reasons. This may be due to death of the Paying Parent, or because the Receiving Parent does not wish the Department to continue to pursue a debt. Although the debt is not ultimately collected in these cases, the Department does not view this as uncollectable because a decision has been taken not to pursue it.

Estimated 'Business As Usual' unpaid maintenance write off in 2020/21	
Unpaid Maintenance at March 2019 (£m)	275.5
Unpaid Maintenance Written off during 2019/20 (£m)	8.5
% unpaid maintenance written off	3.1%
Unpaid maintenance at March 2020 (£m)	354.3
Estimated unpaid maintenance write off 2020/21 (£m)	10.9

Based on the evidence summarised above, although the Department recognises the challenges it faces in collecting unpaid maintenance, a continuing trend of improved compliance, better understanding of the categories of unpaid maintenance coupled with the increased use of new powers available, leads us to classify all unpaid maintenance as potentially collectable.

1.4.5 Statutory Child Maintenance Scheme costs, fees and charges

Non-child maintenance receipts of £43.9 million collected during 2019/20 (2018/19, £34.8 million) related mainly to application fees and collection and enforcement charges, which are paid to the Secretary of State. The administrative cost to the CMS of collecting these fees is reported as part of the CMG costs within the Department for Work and Pensions Resource Accounts.

1.5 Assessment accuracy

Assessment accuracy compares the aggregate weekly value of correct and incorrect child maintenance calculations to determine the percentage of cases that have been correctly assessed.

With the 2012 scheme, the Department has simplified the way it administers child maintenance. For example, it has simplified the calculation and significantly reduced the number of

procedures and manual interventions involved in its administration, using direct interfaces with HMRC and the Department's benefit systems to establish parental income, thus increasing automation of the maintenance calculation.

This increased automation has had a positive impact on assessment accuracy, and extensive work has been carried out to identify and quantify this impact, with methodology being refined each year as the impact on reported accuracy is better understood. Further automation is planned for 2020/21 allowing clients to inform the Department of changes in their circumstances digitally, which will automate both the calculation and effective date of these changes.

Last year we reported automation at 76.1%, this increased in year to 76.8%. This rise is partly due to an increase in the number of cases undergoing annual review, which is where each case is updated after 12 months using the latest gross income, usually sourced automatically from HM Revenue and Customs.

The Department's Quality Assurance Team has reported that the automated calculations they checked were error free for both the initial calculation and annual review of maintenance assessments, allowing these automated decisions to be reflected in the reported accuracy of 99.0% (2018/19, 99.2%). This slight decrease was due to changes in ways of working being made early in the year which took some time to embed.

Peter Schofield
Principal Accounting Officer

Date: 10 December 2020

Statement of Accounting Officer's responsibilities

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As Principal Accounting Officer of the Department, I have responsibility for the 2012 scheme Client Funds Account.

Under Section 7(1) and (2) of the Government Resources and Accounts Act 2000, HM Treasury has directed the Department for Work and Pensions to prepare, for each financial year, a Client Funds Account for the 2012 statutory scheme in the form and on the basis set out in the Accounts Direction.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual, and in particular to:

- observe the Client Funds Account Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- prepare the accounts on a going concern basis

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records, and for safeguarding assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in Managing Public Money.

I confirm that there is no relevant audit information that the Comptroller and Auditor General has not been made aware of, and that I have taken all necessary steps to ensure access to relevant information has been given. I can also confirm that this report as a whole and the judgement required in preparing it, is fair, balanced and understandable, and that I take personal responsibility for this being so.

Peter Schofield
Principal Accounting Officer

Date: 10 December 2020

Governance Statement

3

1 Introduction

The Department for Work and Pensions has responsibility for the management of client funds relating to the 2012 statutory child maintenance scheme. The Department operates the 2012 scheme through the CMS, part of the CMG.

The Department must prepare a Client Funds Account for the 2012 scheme in accordance with our HM Treasury Direction under Section 7 of the Government Resources and Accounts Act 2000.

The governance arrangements set out in the Departmental Resource Account for year ended 31 March 2020 relate to CMG, as CMG is an intrinsic part of the Department. This statement covers topics which are therefore applicable to the CMS operating within the Department⁴.

In December 2012, the Department launched the 2012 statutory child maintenance scheme, delivered by the CMS and by 31 December 2018 all cases on the existing 1993 and 2003 schemes had their liability ended. As a result, parents have to choose between making their own, family-based arrangement, or making an application to the CMS where a Family Based Arrangement is not possible. Although outstanding arrears balances on some cases have moved from 1993 and 2003 computer systems to the CMS 2012 computer system, these arrears continue to relate to, and will be reported in, the Client Funds Account for the 1993 and 2003 schemes.

2 Control challenges: 2012 scheme

There are control challenges facing the 2012 scheme.

2.1 System and process improvements

System and process changes will always carry a small level of risk even after extensive testing. A number of changes have been introduced during the year to deliver targeted improvements in system functionality or reduce caseworker intervention. All have been implemented successfully.

2.2 Assessment accuracy

Our estimate of assessment accuracy for 2019/20 is 99.0%, which remains broadly in line with 2018/19 (99.2%). The slight reduction was due to changes in ways of working early in the year,

⁴ <https://www.gov.uk/government/publications/dwp-annual-report-and-accounts-2019-to-2020>

which adversely affected accuracy. However, numerous improvements were subsequently implemented to improve accuracy, such as the introduction of an increased checking regime.

The Department expects automation to continue to have a positive impact on accuracy as the proportion of calculations carried out by the system rises relative to the manual activity of caseworkers. Whilst the risk of manual caseworker error cannot be removed, significant efforts are being made to reduce the likelihood of error.

Better Management Information (MI) has also contributed to improving accuracy through increased transparency of the CMS 2012 system. CMG operations has implemented targeted checking regimes, developed using this improved MI. This has allowed early identification of emerging trends, allowing greater focus on getting things right first time for the client. New and improved training materials have been developed and work is also being done to embed a culture of continuous improvement.

2.3 Information security

This control challenge is to protect the growing amount of sensitive personal data necessary to assess and pay child maintenance, while at the same time making efficient use of that data.

The system introduced to manage the 2012 scheme brings with it certain risks due to the interfaces employed and client/employer web access to the system. The Department's Security Accreditation Team has reviewed the documentation supporting security accreditation for CMS 2012 in accordance with Her Majesty's Government standard information security requirements. They found the system met current security requirements with an acceptable level of risk.

The General Data Protection Regulations (GDPR) came into effect on 25 May 2018, together with the 2018 Data Protection Act. These changes represented the biggest shake-up in data protection and privacy legislation in the EU for 3 decades, strengthening previous data protection law and updating it to take into account changes in technology and attitudes to privacy in the digital age. As a result, the Department adopted the GDPR Article 29 Working Party guidelines on Personal Data Breach Notification which may be accessed at: http://ec.europa.eu/newsroom/article29/item-detail.cfm?item_id=612052.

In relation to personal data breaches, the Department follows the guidelines from the Information Commissioner (ICO) which can be found at:

<https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/personal-data-breaches/>

In 2019/20 the ICO made 58 enquiries of the Department about data protection issues reported to ICO, of which 16 related to personal data breaches.

CMG have taken significant steps on data breaches, including the initiation of an internal audit review to strengthen their processes to prevent future security breaches. CMG have already made many improvements, including enhanced communications and staff awareness, additional training, new procedures and additions to the internal checking strategy. Whilst CMG are carefully monitoring their improvement, the Department recognises that there is still more to do and will continue to strengthen the approach through a robust improvement plan delivered as part of their transformation programme.

Further information about Data Protection is being addressed within the Department and can be found in the DWP Annual Report and Accounts for 2019/20:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/896268/dwp-annual-report-and-accounts-2019-2020.pdf

2.4 Management Information

A strategy for the publication of information on the performance of the 2012 scheme, delivered by the CMS, was published in February 2014 and updated in November 2016 with plans to increase the range and assurance levels of published data. This can be found here:

<https://www.gov.uk/government/publications/publication-strategy-for-the-2012-scheme-administered-by-the-child-maintenance-service>.

Experimental official statistics are published quarterly. The range of statistics included in the experimental statistics has grown since the inception of the scheme, and is available here:

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

In addition to the published statistics, the Department uses a wide range of MI to control the processing of applications, changes of circumstances and other business activities. The MI that the Department produces has enabled the Department to stay in control of work intake, avoid backlogs and deliver agreed service levels.

During the financial year 2019/20, a new CMG data and analytics service, Children Analytical Data Service (ChADS), has been developed and will be launched in 2020/21. This will be delivered in a number of phases, commencing with the transition of existing finance reporting capability, then broadening the scope of deliverables in accordance with a prioritised CMG Reporting and Analytics backlog. ChADS entered Private Beta in April 2020, and is currently undergoing user evaluation, with the intention of transitioning to a Live Service later in 2020. This service will realise a significant range of benefits, including:

- Enhanced data visualisation and analysis capability.
- Significant improvements and efficiencies in the provision of data: a reduction in system response times, and the removal of manual effort / handling.
- Provision of a large CMG data repository, which will be exploited to rapidly develop new end user products.
- The ability to replace and decommission CMG's existing MI solutions.

Certificate of the Comptroller and Auditor General to the House of Commons

4

Opinion on accounts

I certify that I have audited the Client Funds 2012 Scheme Account for the year ended 31 March 2020 under the Government Resources and Accounts Act 2000. The accounts comprise: the Receipts and Payments Statement, the Statement of Balances, Note 4 'Movements in unpaid maintenance' and the related notes. These accounts have been prepared under the accounting policies set out within them.

In my opinion:

- the accounts properly present the receipts, payments, balances and arrears of the Client Funds 2012 Scheme Account for the year ended 31 March 2020; and
- the accounts have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the receipts and payments recorded in the accounts have been applied to the purposes intended by Parliament and the financial transactions recorded in the accounts conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the accounts section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Department for Work and Pensions (the Department) in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Department's use of the going concern basis of accounting in the preparation of the accounts is not appropriate; or
- the Department has not disclosed in the accounts any identified material uncertainties that may cast significant doubt about the Client Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the accounts are authorised for issue.

Responsibilities of the Accounting Officer for the accounts

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer of the Department is responsible for the preparation of the accounts and for being satisfied that they properly present the receipts and payments of the Client Funds 2012 Scheme Account for the year ended 31 March 2020, the cash balances held as at 31 March 2020 and the outstanding maintenance arrears as at 31 March 2020.

Auditor's responsibilities for the audit of the accounts

My responsibility is to audit, certify and report on the accounts in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these accounts.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the accounts, including the disclosures, and whether the accounts represent the underlying transactions and events in a manner that achieves fair presentation.

18 Client Funds Account 2019/20 2012 Child Maintenance Scheme

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Department's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the accounts or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Department to cease to continue as a going concern.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments recorded in the accounts have been applied to the purposes intended by Parliament and the financial transactions recorded in the accounts conform to the authorities which govern them.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Annual Report, other than the accounts and my auditor's report thereon. My opinion on the accounts does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the accounts, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the accounts or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- in the light of the knowledge and understanding of the Department and its environment obtained in the course of the audit, I have not identified any material misstatements in the Annual Report; and
- the information given in the Annual Report for the financial year for which the accounts are prepared is consistent with the accounts and has been prepared in accordance with the applicable legal requirements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the account is not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

Further details of my opinions are provided in my report on pages 20 to 23.

Gareth Davies
Comptroller and Auditor General

Date: 11 December 2020

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
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Report by the Comptroller and Auditor General to the House of Commons

Introduction

1 The Department for Work and Pensions (the Department) is responsible for administering statutory child maintenance schemes in Great Britain, and the management of client funds relating to these schemes. The Child Support Agency (CSA) 1993 and 2003 schemes, and the Child Maintenance Service (CMS) 2012 statutory Child Maintenance Scheme, support children by collecting funds from paying parents and paying these funds to receiving parents.

2 This report relates specifically to the Child Maintenance Client Funds 2012 scheme Account (the Account) and my unqualified opinions on that Account. It includes my assessment of the accuracy of the Department's maintenance assessment calculations and the resultant errors in receipts and payments that flow from these, that underpins my regularity opinion, and future challenges for the 2012 Scheme. I have provided a separate certificate and report on the Child Maintenance Client Funds 1993 and 2003 Schemes Account (HC 1034).⁵

Key findings

3 Although not material, I note that the accuracy of child maintenance assessments reduced during 2019-20. I estimate that error within the associated receipts and payments was 1.06%⁶ for the year as a whole (2018-19 0.91%). Where assessment calculations are inaccurate, the associated receipts and payments do not conform to scheme rules and are irregular. I have not qualified my opinion as I consider the level of error and resulting irregular receipts and payments to be immaterial to my opinion (paragraphs 7 to 9).

4 The Department promptly identified and addressed the issue that led to additional errors early in 2019-20. The Department made changes to its processes and quality assurance procedures in April 2019. This included reducing the level of checking that its staff performed on manual assessment calculations, and some income checks were missed. It estimates that this led to an increase in the error rate to 2.2% for that month. It detected this increase in error rate through its regular sample testing of cases, introduced a performance improvement plan and reintroduced full quality checking from May 2019. Since then, the Department has demonstrated a sustained improvement in the accuracy of its calculations through to March 2020. It does not yet have a process to systematically consider the impact on other cases of

⁵ <https://www.gov.uk/government/collections/child-maintenance-client-funds-accounts>

⁶ The Department estimates accuracy in assessments and reports this in its Governance Statement at page 13. In evaluating the findings of my audit, I estimate an error level of 1.06%. My estimate has a lower error limit of 0.75% and an upper error limit of 1.08%.

issues identified by quality checks.(paragraphs 10 to 13).

5 Looking ahead, the Department faces challenges in administering the 2012 scheme, and I will continue to monitor the impact of these on the accuracy of assessments and reporting. The Department diverted staff out of Child Maintenance Group to support the Department's response to COVID-19, making some process changes and deferring accuracy checks from April to June 2020. In addition, the Department faces challenges in allocating maintenance collected to Accounts and cases, to report accurately. The 2012 scheme reports an arrears balance of £354 million as at 31 March 2020; the Department continues to assess the efficacy and impact of its new collection powers to inform its reporting on the collectability of these arrears (paragraphs 14 to 17).

Recommendations

6 Since March 2020, COVID-19 has led to operational changes in the Department to allow for the prioritisation of benefit processing. I continue to receive correspondence from parents on the operation of the child maintenance schemes and level of customer service they receive. I will be undertaking further work during 2021 to review progress in closing the 1993 and 2003 schemes, and the operation of the 2012 scheme. In the meantime, the Department should consider the service it is providing and, to maintain accuracy and support accountability and reporting, should:

- understand the impact of COVID-19 related changes and take appropriate action to ensure assessments can be promptly and accurately updated, and maintenance effectively collected and paid to receiving parents;
- allocate sufficient resource to provide appropriate customer service and timely responses to queries and complaints;
- ensure procedures are in place to support accurate case worker decisions, adequate quality controls checks and systematic evaluation of the impact of known errors to ensure accuracy of assessments;
- take steps to ensure maintenance collected can be allocated to schemes and cases, to support accurate reporting and prompt payment to receiving parents;
- continue to review its assessment of collectability of arrears relating to the 2012 Scheme in light of experience to date and report its assessment of collectability transparently in the 2012 scheme Account.

Opinion on the regularity of receipts and payments

7 I am required to give an opinion on whether, in all material respects, the transactions comprising the receipts and payments within the Account have been applied to the purposes intended by Parliament and conform to the authorities which govern them (the 'regularity' opinion). Errors in the calculations of maintenance assessments mean that these assessments are not in accordance with the specific legislative requirements and therefore the associated receipts and payments are irregular.

8 My estimate of gross error in receipts and payments in 2019-20 is 1.06%. Within this, I estimate that errors in underlying maintenance assessments resulted in overpayments of

around 0.47% and underpayments of around 0.59% in maintenance collected from paying parents. The cases affected by overpayments are unconnected to the cases affected by underpayments, and consequently I have considered the gross error figures in receipts and payments in forming my opinion.

9 While my estimate of the gross error for 2019-20 has increased compared to that for 2018-19, this increase is predominantly a result of errors in maintenance assessments identified by the Department in April 2019 that were quickly addressed to minimise subsequent errors. Considering the level of errors in receipts and payments across the year as a whole, I do not consider the level of error in 2019-20 material to my opinion.

Accuracy of maintenance assessments

10 The Department introduced changes to processes and quality assurance procedures at the start of 2019-20, which resulted in some cases involving manual assessment calculations no longer being subject to a separate quality review. In addition, some cases were not reviewed as intended. These changes led to an increase in the level of errors identified by the Department's Quality Assurance Team (QAT) as part of regular sample testing. The Department estimates that the error level increased to 2.22% in April 2019. Errors levels are monitored on a weekly basis by the Child Maintenance Delivery Assurance team. Emerging issues are then escalated to the Child Maintenance Risk Review Board. In response to the increased errors identified in April 2019, the Department implemented a Performance Improvement Plan in May 2019, which included reintroducing quality checking of income change calculations, providing targeted training packages and introducing system based tools to enhance controls around manual recalculations.

11 These steps have resulted in sustained improvement in accuracy rates though to March 2020. No errors of the same cause or significance were identified during the later months of 2019-20. The Department's controls operated as designed to monitor and promptly address the causes of the increase in errors identified in April 2019.

12 It is important that the Department closely monitors accuracy rates going forward, as since the end of the 2019-20 year the Department has had to make significant operational changes in response to COVID-19. Changes were made to assessments and accuracy checks were not conducted during April 2020 to July 2020 because staff were redeployed to process new benefit claims elsewhere in the Department. Checks now undertaken on all cases assessed since April 2020 indicate a similar accuracy level to prior years for the year to date, although there was a reduction in accuracy in cases reviewed up to October 2020. I will continue to monitor accuracy rates throughout 2020-21 and consider the impact of any prolonged reduction in accuracy on my opinion on the 2020-21 Account.

13 The Department does not yet have a process to systematically consider the impact on other cases of issues identified by quality checks of the QAT. Taking retrospective corrective action on cases impacted by known areas of error would improve the accuracy of maintenance assessments further and ensure that parents pay the correct maintenance to support their children.

The future of the 2012 scheme

14 COVID-19 has also led to operational changes in the Department to allow for the prioritisation of benefit processing that have affected its customer service. For the 2012 scheme, the Department amended the reporting and processing of income changes and

restricted the types of changes that could be made over the telephone. Across all schemes, 1,440 staff were reallocated from child maintenance to higher priority work. Due to changes in the availability of court dates, the Department also paused enforcement activity on all schemes. It has not yet evaluated the impact of these changes on child maintenance operations.

15 Child maintenance cases continue to generate a significant volume of the correspondence received by the NAO; with correspondents raising concerns about inaccurate assessment and arrears, and the customer service received from the Department when parents query assessments or arrears, before the impact of COVID-19. I will undertake further work on the operation of the 2012 scheme during 2021.

16 As the 1993 and 2003 schemes are brought to a close, all maintenance collected from parents is now received into one bank account and administration for all cases has transferred to the 2012 scheme IT system. This presents a new challenge in disaggregating bank balances to report in the scheme Accounts. While difficulties allocating receipts have been a feature of child maintenance since the inception of the schemes, these administrative changes now also lead to cash and receipts which relate to the 1993 and 2003 schemes being recorded in the 2012 scheme Accounts. The Department has performed analysis to allocate the majority of unallocated receipts to cases and schemes, but £5.8 million of maintenance collected could not be allocated to cases and so disaggregated between the two schemes Accounts, resulting in an estimated allocation between schemes, explained in Note 3 of the Account. For the 1993 and 2003 schemes Account, this is a material value. In addition, some maintenance receipts take longer to allocate, where references are missing or incorrect, the payment is not at the value expected, or a paying parent has more than one maintenance case. In these cases, it can take longer for money to be paid to receiving parents. I would expect allocation of maintenance collected to be an area of focus for the Department over the next year.

17 The Department has presented its collectability assessment of 2012 scheme outstanding maintenance arrears of £354 million at section 1.4.4 of the foreword to the Account. This assessment concludes that all unpaid maintenance is potentially collectable. This is based on an improved understanding of the categories of unpaid maintenance, compliance trends and increased enforcement powers which are available to the Department. The Department should continue to review the effectiveness of its new collection powers as it gains more experience of applying them, and use this experience to inform its assessment and reporting of the collectability of these arrears in future Accounts.

Gareth Davies

Comptroller and Auditor General
National Audit Office
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Date: 11 December 2020

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Receipts and Payments Statement for the year ended 31 March 2020

	Notes	2019/20 £000s	2018/19 £000s
Receipts:			
Child Maintenance from Paying Parents	2.1	173,094	147,939
Fees, charges and other recoveries collected on behalf of the Secretary of State	2.1	43,854	34,803
Total Receipts		216,948	182,742
Payments:			
To Receiving Parents	2.2	166,984	138,800
Refunds to Paying Parents/employers	2.2	6,220	5,022
Fees, charges and other recoveries collected on behalf of the Secretary of State	2.2	43,854	34,803
Total Payments		217,058	178,625
Net receipts/(payments)		(110)	4,117
Balance as at 1 April		11,926	7,809
Balance as at 31 March		11,816	11,926

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Statement of Balances as at 31 March 2020

	Notes	31 March 2020 £000s	31 March 2019 £000s
Opening balance		11,926	7,809
Movement		(110)	4,117
Closing cash balance	3	<u>11,816</u>	<u>11,926</u>

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Notes to the account for the year ended 31 March 2020

1 Statement of accounting policies

The account has been prepared on a cash basis and in the form directed by HM Treasury. The maintenance owed by Paying Parents as at 31 March 2020, along with movements in these arrears balances during the financial year has been prepared under the historic cost convention.

2 Receipts and payments

2.1 Receipts

Receipts from clients relate to child maintenance and also application fees and charges collected from Paying and Receiving Parents using the Collect and Pay Service. Recoveries are also obtained from Paying Parents in respect of non-child maintenance payments, such as DNA and court costs.

The receipts quoted in the Receipts and Payments Statement differ from the receipts total shown in movements on outstanding maintenance arrears. This is principally due to timing differences and the inclusion of non-maintenance receipts in the amounts shown in the Receipts and Payments Statement.

The majority of receipts received in the bank account can be identified at a client level and can be allocated to the correct service and reported in the appropriate annual account.

However, receipts do not allocate immediately, for reasons including standard bank clearance times, incorrect reference numbers quoted and liability not yet due. Until receipts are allocated we are not always able to determine whether it relates to a CMS case, or a CSA case which has transitioned to the CMS 2012 IT system. As a result, an element of the total receipts must be estimated, as described further in note 3.

2.2 Payments

Payments made also include payments relevant to the Department for Communities in Northern Ireland to fund payments made on behalf of DWP.

In addition to payments of child maintenance, refunds and reimbursements are made to Paying Parents and employers for overpayments of maintenance and any costs recovered from Paying Parents and income from fees and charges are paid to the Department.

The increase in receipts and payments is due to cases from the CSA schemes re-applying to the CMS Scheme, as well as increasing volumes of completely new applications.

3 Statement of balances

The balances relate to monies collected, which had not been paid over at year end and were held in the Client Funds bank accounts.

As the historic CSA systems and associated bank accounts close down, CMG have moved towards using one bank account for both CMS cases and CSA cases which have transitioned to the CMS 2012 system. As such, the CMS bank balance as at 31 March each year will be comprised of both CSA and CMS balances, as described in section 2.1.

At the 31st March, the CMS bank account balance was £13 million. Of this £13 million cash balance, £6.9 million has been identified as attributable to the CMS 2012 scheme, £0.3 million to the 1993 and 2003 schemes, and £5.8 million cannot be determined. During the course of 2019/20, 85% of all receipts were allocated to the 2012 scheme. This is the most robust evidence based approach for apportioning the unallocated balance and therefore 85% (£4.9 million) of the £5.8 million has been included within the CMS 2012 scheme receipts and balance, with the remaining 15% (£0.9 million) included within the 1993 and 2003 scheme accounts.

The total cash balance included in the CMS 2012 scheme accounts is therefore £11.8 million (£6.9 million directly attributed, and £4.9 million apportioned based on annual receipts).

4 Movements in unpaid maintenance

The following table and accompanying notes explain movements between the opening and closing unpaid maintenance balances:

	Notes	2019/20 £000s	2018/19 £000s
Outstanding maintenance arrears at start of year		275,466	197,921
Maintenance charged in year and other adjustments	4 i)	256,276	228,941
Amounts written-off	4 ii)	(8,502)	(7,221)
Maintenance received in year	4 iii)	(168,900)	(144,175)
Outstanding maintenance arrears at year end	4 iv)	354,340	275,466

- i) **Maintenance charged during the year and other adjustments.** This comprises: assessments made on Paying Parents during the year; outstanding maintenance arrears transferred to and from the Department for Communities in Northern Ireland, and adjustments arising from cancelled or terminated assessments; or where the liability has been reduced, for example, as a result of a direct payment between parties being offset against the maintenance due. Once the initial calculation is provided to clients, they are given an opportunity to review and confirm details before a payment schedule is issued. This necessary delay means that some arrears have accumulated before the payment plan is in place, which is usually received in the first 12 months.
- ii) **Amounts written off.** CMG has continued to make use of write off powers granted as part of Write off and Part Payment legislation introduced in 2010. The regulations allow part

payment of child maintenance arrears to be accepted in full and final settlement with the agreement of the Receiving Parent. The regulations also allow child maintenance arrears to be written off in certain explicit circumstances for example where the Receiving Parent tells us that they do not want the arrears to be collected or the Paying Parent has died. If a Paying Parent dies and there are arrears of child maintenance outstanding, the CMG can make a claim for those arrears against the estate of a deceased Paying Parent, where it is appropriate to do so.

- iii) **Maintenance received during the year from Paying Parents.** When a receipt is allocated to a case by the CMS 2012 system, the receipt reduces the outstanding liability of the Paying Parent immediately, but does not pay out to the Receiving Parent until funds are cleared. Times vary depending on the method of payment and its associated clearance cycle. The total value of maintenance receipts allocated to cases in 2019/20 was £168.9 million (2018/19, £144.2 million). The principal difference between the value of the receipts in the Receipts and Payments Statement (2019/20, £216.9 million) (2018/19, £182.7 million) and those reported in Note 4 is due to the inclusion of non-child maintenance receipts, mainly fees and charges in the Receipts and Payments Statement. Also, the Receipts and Payments statement is prepared on a cash basis so there is a further timing difference between cash being received in our bank account and being allocated to a case.
- iv) **Outstanding maintenance arrears as at 31 March 2020.** This is the balance of outstanding maintenance arrears recognised by the Department, after allowing for maintenance assessments in the year and after maintenance receipts have been deducted.

5 Events after the reporting date

5.1 Impact of COVID-19 on maintenance and income

The purpose of the CMS is to facilitate the payment of child maintenance between separated parents, and Paying Parents are expected to pay any child maintenance due. This was the case during the COVID-19 public health emergency and it remains the expectation as the UK transitions into a post-COVID outbreak phase.

During the pandemic outbreak, the CMS took emergency steps to provide core essential services for the wider Department that resulted in reduced staffing levels within CMG, and meant that the CMS was unable to put child maintenance arrangements in place as quickly as usual. As a result, some temporary changes were made to the CMS to ensure some elements of the service could still be delivered. These included pausing new collection and enforcement activity. In addition, the vast majority of the CMS enforcement powers involve third parties, including Her Majesty's courts, enforcement agents and financial institutions, and were paused as a result of the circumstances and guidance surrounding the COVID-19 pandemic.

The CMS remains committed to making sure that over time everyone pays or receives the right amount of child maintenance. This means it will backdate calculations where needed and will begin collecting payments as soon as possible once a full service resumes.

The timing of the outbreak late in the 2019/20 financial year means that the impact on maintenance and income figures appear minimal. The Department expects that the impact will be more significant in the 2020/21 Client Funds Account.

These accounts were authorised for issue on the date the Comptroller & Auditor General signed his certificate and report.

