



child
support agency
an executive agency of the Department of Social Security

Child Support Agency Annual Report and Accounts 1995/96

“Throughout 1995/96
we have worked hard
to implement planned
improvements. The changes
we have made demonstrate
our determination to improve
the quality of our work, and
underpin our prime function
of administering child
support maintenance
efficiently and fairly between
both parents and the
taxpayer.”

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Foreword

by the Chief Executive Miss Ann Chant

In my foreword to our Business Plan for 1995/96 I tried to make it crystal clear that this Agency was determined to put in a level of performance across the whole range of our business responsibilities that would be markedly better than anything it had achieved in its first two years of existence. A wide range of people were looking to us to do this and we were determined to succeed. I also stressed what a lot of challenges faced us, starting from the implementation of major legislative changes right at the beginning of the year with a whole programme of further operational, policy and information technology improvements to be introduced at various stages. The headline achievements against which our performance would be judged were the Secretary of State's targets, which were aimed at the most important areas of our work where we had either to sustain our rate of improvement or demonstrate it satisfactorily for the first time.

The year did indeed prove to be very demanding and we had to wait right up to the time when the final months management and financial information figures were produced before we could be sure of how well we had done. In the event, as the following pages demonstrate in rather more detail, we produced an overall performance that I believe was a highly creditable one. The major changes to the legislation effective from April 1995 were implemented smoothly, despite the fact they involved considerable changes to our computer system and the review of all our live caseload (1,250,521 cases) resulting in over 140,000 cases being considered for reassessment. We have also made all the necessary progress to introduce some flexibility into child maintenance assessment work, by way of the Departures System, which is scheduled for introduction in 1996/97. Of our six operational Secretary of State targets, we achieved four in full and one in part: our achievement in just exceeding the target of £300 million, to be collected or arranged by way of payments from absent parents, needs to be judged against the comparable figures of £187.4 million for 1994/95 and something around £13 million for 1993/94. And our greatly increased accuracy figure for child maintenance assessments which, under our still-new legislation should be correct to the nearest penny rather than gauged against a rule of thumb, was another significant achievement.

As the Social Security Select Committee said during 1995/96, the Agency has been helped by changes to policy and by the growing acceptance that the Child Support Agency will be a permanent feature of British life. That is in part due to all three potential providers of child maintenance (both the parents and the general taxpayer) gradually realising that the Child Support Acts now ensure that the onus of maintaining children of parents who live apart lies firmly with those parents in the first place and only involves the general taxpayer if they cannot afford it, no matter what the circumstances are that cause them not to live as a family unit. It is also partly because, as Ministers and Parliament recognise, some adjustments to this radical legislation were found to be needed when it was applied in practice. But I believe it is also due to the fact that the staff and managers of the Child Support Agency worked together to maximise our capacity for doing a complex and demanding job efficiently and effectively.



New skills had to be learned and applied, even under difficult circumstances. The fact that we have done this, to some extent at least, can be judged by the Agency's success in over 55,000 specialist traces, of which the vast majority referred to the absent parents' whereabouts and over 54,000 deduction from earnings orders and court liability orders that have been issued against absent parents who refused all other attempts to get them to pay their legally-due financial liability for their children.

None of this is to imply, however, that this Agency is completely satisfied with the level of performance we achieved in 1995/96, nor that we do not fully recognise that there is still a range of further improvements we must achieve. We know we do not deliver a consistently high standard of performance in every single part of our operations and we know that our clients are not sufficiently satisfied with the way we answer their queries and concerns. Those are topics which we have put right at the top of our agenda for 1996/97. Looking back throughout 1995/96 we have worked hard to implement planned improvements. The changes we have made demonstrate our determination to improve the quality of our work, and underpin our prime function of administering child support maintenance efficiently and fairly between both parents and the taxpayer. These changes should provide enough evidence of our achievements and increasing effectiveness to provide the confidence that we will continue to make the necessary progress.

It is for all those reasons that I feel able to present this Annual Report with a claim that it demonstrates that the Agency has been well served by the hard work and commitment of its staff, and that our clients can now increasingly look to receive a better service from us.

A handwritten signature in black ink, appearing to be 'A. Hunt', followed by a period.

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38. At the minimum the Agency need to be able to obtain routinely information showing what is owed under (i) interim and (ii) final assessments, analysed between initial backlogs of debt and ongoing commitments, what has been recovered under these heads, plus the age of the debt outstanding, and the likely recoverability of the debt. The Agency's Financial Management System has been developed to provide much of this information and includes many features which will help strengthen their debt management. They plan to give their six Centres on-line access to the system which will improve the availability of up-to-date information on debt recovery.
39. The Child Support Agency are also piloting the introduction of a computerised debt management system. This new system is linked to the Financial Management System and is being tested at one of their Centres with a view to implementing the system at the other five Centres by the end of 1996. It should help promote the active management of individual debts by identifying quickly absent parents who fail to comply with their maintenance assessments enabling staff to make early contact to establish repayment arrangements. I shall continue to monitor progress on these important initiatives and will report the results to Parliament in due course.

Impact on audit opinion

40. As noted at paragraph 24, I qualified my audit opinion on the account for 1994–95 because the Child Support Agency were unable to estimate the value of uncollectable debt. Following a special exercise the Agency are now able to provide this information and have fully disclosed the position in the notes to the account for 1995–96. I have therefore decided not to qualify my opinion on this matter in 1995–96.

John Bourn
Comptroller and Auditor General
28 June 1996

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32. The Agency told me that they are taking a number of initiatives to help ensure maintenance is paid. In addition to making early contact with absent parents once maintenance has been assessed to arrange payment before the account falls into arrears they are improving their management information to ensure that they identify quickly absent parents who are failing to make regular payments.
33. Where absent parents do not comply with their assessments the Child Support Agency can take action to enforce the outstanding debt through deduction-of-earnings orders, and liability orders in respect of the self-employed. They issued over 50,000 deduction-of-earnings orders during 1995–96 and obtained over 1,300 liability orders, representing a significant increase in activity compared with the previous year.
34. The time taken to make full assessments can lead to large debts building up. During 1995–96 the Child Support Agency cleared 48 per cent of new maintenance applications within 26 weeks and 15 per cent were outstanding for more than a year. As assessments are generally backdated to the date maintenance enquiry forms are issued this can result in backlogs of debt – sometimes as much as £1,000 – being due when assessments are finally issued.
35. To prevent these backlogs, the Child Support Agency advise absent parents about the risks of allowing debt to accumulate when they issue maintenance enquiry forms. They encourage absent parents to pay maintenance on a provisional basis, pending the final assessment, but in practice many decide not to.
36. The Child Support Agency are also seeking to reduce the risk of initial backlogs of debt building up by speeding up the assessment process. And since April 1995, in cases where there have been significant delays by the Agency, they will enforce only six months arrears if an absent parent makes a commitment to pay the maintenance due. Once there is firm evidence of a commitment – normally a minimum of twelve months compliance with the assessment – the Agency will compensate the person with care for any actual financial loss arising from the non-pursuit of the deferred debt. The deferred debt can be re-instated at any time if the absent parent subsequently fails to comply with the assessment.

Debt management

37. The absence of reliable information about the nature of the maintenance debt outstanding and the existence of a growing core of apparently uncollectable debt arising from interim maintenance assessment which cannot be adjusted have made it difficult for the Child Support Agency to control the debt effectively. These factors have also made it difficult for Parliament to assess the Agency's success in ensuring that absent parents are paying the maintenance due and to determine whether the Agency are managing the outstanding debt effectively.

Interim maintenance assessments

26. An estimated £542 million of the £896 million outstanding debt relates to interim maintenance assessments. The Child Support Agency make this type of assessment in cases where absent parents fail to supply sufficient information for the Agency to make a full assessment. Interim assessments are normally set at punitive rates to encourage absent parents to send in the information required to make a full assessment. The average amount due under interim assessments is over £90 per week compared with around £25 per week for full assessments.
27. Following a change in the legislation the Child Support Agency are now able to backdate a full assessment and adjust the outstanding debt accrued under an interim assessment to reflect the lower rate of maintenance normally due. But they can only adjust interim maintenance assessment debts accruing on or after 18 April 1995, the date the new regulations came into force.
28. The Child Support Agency cannot legally write off or adjust debts accrued before 18 April 1995 under interim maintenance assessments, even in cases where absent parents are assessed as having little or no liability to pay under a subsequent full maintenance assessment. In a number of further cases the debts arising under pre-April 1995 interim maintenance assessments cannot be enforced because the assessments are defective, for example because the effective date of the assessment was miscalculated.
29. These factors mean that there is a significant growing core of interim maintenance assessment debt which is unlikely to be collected. The Child Support Agency estimate that £435 million (80 per cent) is probably uncollectable and that there are doubts about a further £77 million (14 per cent).
30. The Child Support Agency have explored ways in which they could adjust the debt within the current legislative framework. For example, they are able to cancel interim maintenance assessments which are defective since such assessments have no status in law, but they are only prepared to do this in cases where absent parents subsequently co-operate with them. They have been advised, however, that primary legislation would be required to allow them to make retrospective adjustments to valid interim maintenance assessments issued before 18 April 1995. As any adjustments could affect the right of persons with care to the payment of maintenance under the assessments in question any proposed changes to the legislation would require careful consideration.

Full maintenance assessments

31. An estimated £354 million of the £896 million outstanding debt relates to full maintenance assessments. The Child Support Agency estimate that around £63 million (18 per cent) is probably uncollectable and that there are doubts about a further £110 million (31 per cent). The Agency's statistics show that some 50 per cent of absent parents are paying maintenance with around 20 per cent paying the full amount due.

Our aims

The child support scheme was introduced from 5 April 1993 to replace a child maintenance system which was failing large numbers of children, the parents with whom they lived and the general taxpayer. It is the Child Support Agency's (CSA's) task to ensure that parents who live apart meet their financial responsibilities to their children whenever they can afford to do so, by administering the Child Support Acts of 1991 and 1995.

Our key objectives are to:

- implement successfully child support legislation, ensuring that maintenance assessments are accurate and that payments are regular.
- provide a service to clients which is accessible, courteous, fair and efficient and seen by them as such.
- provide clear, prompt and accurate information to our clients and the public about the child maintenance system and about the Social Security benefits available to clients who are in work.
- establish and maintain effective working relationships with the courts, advice agencies and other organisations with an interest in the Agency's work.
- contribute to the Department's evaluation and development of child support policy and ensure that the Agency can respond effectively to change.
- make the most efficient and effective use of available resources.

Our organisation

The Agency is headed by the Chief Executive, Miss Ann Chant. Management responsibility for the Agency lies with the Board of Management. The Board comprises Directors of Operations; Business Development and Support; Finance and Personnel. In 1995/96 we completed plans for a new Quality and Communications Directorate, operational from April 1996.

In addition, the Agency has now appointed two non-executive members of the Board – Mr David Thornham, who has 40 years of experience in all aspects of banking, including debt collection and Mr John King, who has considerable experience of information technology, telecommunications, financial services and all aspects of quality management.

The Agency employs approximately 6,500 (full-time equivalent) staff, most of whom are located either in one of our six Child Support Agency Centres (CSACs) at Belfast, Birkenhead, Dudley, Falkirk, Hastings and Plymouth, or in local Social Security offices – referred to as our 'Field Offices' – throughout Great Britain.

A smaller number of our staff are based at the Central Appeals Unit in Lytham St Annes, at the National Enquiry Line service in Liverpool, and Central Support Services in Newcastle-upon-Tyne and Plymouth. The Agency's Headquarters are located in Dudley.

The Belfast centre is an integral part of the Northern Ireland Child Support Agency. It provides a service to an area of the mainland on our behalf.

The work we do

The Agency undertakes a range of complex administrative tasks.

Our key activities are to:

- contact absent parents, arrange the resolution of paternity disputes, assess child maintenance, notify absent parents and people with day-to-day care for their children about the assessment made and arrange a suitable payment method.
- collect and pass on maintenance payments at the request of either party, and take action to recover arrears and re-establish payment where necessary.
- review maintenance assessments regularly and when there is a change of circumstances.
- prepare, and where appropriate, present appeals to be heard by the Independent Child Support Appeal Tribunal Service.
- liaise with the Benefits Agency (BA) in cases where clients receive Social Security benefits.

Qualification of audit opinion

20. Maintenance assessments underpin the receipts, payments and balances disclosed in the Client Funds account. My examination indicates that some 21 per cent of assessments in 1995–96 were inaccurate. A further 13 per cent of the assessments had been made in the absence of some of the required information and I am unable to determine whether they were accurate.
21. There is insufficient information available to me and the Agency to determine with reasonable certainty the probable extent of errors. There is also insufficient information to make a reasonable estimate of the financial impact of the errors on the Client Funds account.
22. The frequency of the assessment errors and their value where this is known are so material that I have concluded that the lack of information prevents me from forming an opinion as to whether the Client Funds account properly presents the receipts and payments for 1995–96 arising from the amounts due from clients. I have therefore qualified my audit opinion.

Collection of maintenance due

23. Note 6 to the Client Funds account shows the amount of maintenance debt outstanding at 31 March 1996. Outstanding debt rose from £525.2 million at 31 March 1995 to £895.6 million at 31 March 1996. Maintenance scheduled as due during the year amounted to £565.2 million. Repayments and adjustments amounted to £194.8 million, resulting in a net increase in outstanding debt of £370.4 million.
24. I qualified my opinion on the financial statements for 1994–95 because the Child Support Agency had been unable to estimate the value of uncollectable debt and had not made a provision for bad and doubtful debts. The Committee of Public Accounts were concerned that the Agency were unable to provide this information (First Report, Session 1995–96 (HC31)). In response, the Treasury Minute (Cm 3172) stated that the Agency would attempt to provide a reliable analysis of the maintenance debt at 31 March 1996.
25. The Child Support Agency undertook a special exercise to estimate the level of uncollectable debt. They examined a representative sample of cases where there was debt outstanding and assessed the likelihood of each debt being collected. The results indicate that £686 million (77 per cent) of the total outstanding debt may be uncollectable. Of this amount the Agency estimate that some £499 million will be very difficult to recover and is therefore probably uncollectable and that there are doubts about a further £187 million.

The Child Support Agency's accuracy performance indicator

16. In their First Report of Session 1995–96 (HC31) the Committee of Public Accounts noted that measures were being taken to improve accuracy and that the Child Support Agency had been set a target of 75 per cent accuracy to be achieved in March 1996. The Agency have reported that in 79 per cent of the cases checked in March 1996 the cash value was for the correct amount. My staff reviewed the Agency's approach to assessing and reporting accuracy.
17. The Child Support Agency have established a quality assurance team at each of their six Centres to monitor accuracy. The teams operate to centrally approved standards and are accountable to the Centre's management. Each team examines a random sample of about one per cent of all assessment decisions taken within their Centre. The results of this work are collated and form the basis for the accuracy performance indicator reported monthly to the Agency's Management Board.
18. Although the Child Support Agency use a similar definition of accuracy to that used by the National Audit Office there are a number of factors which need to be taken into account when comparing their reported performance with the National Audit Office results.
 - As the Agency's target related to the end of the year their reported performance is based on the accuracy rate for March 1996, the highest monthly figure reported in the year. The National Audit Office results cover the period from April 1995, when accuracy was much lower, and reflect performance over the whole year.
 - I report cases where there is insufficient evidence separately (category (f) at Figure 2) because I consider that it is important to know the incidence of such cases when considering the reliability of the Agency's assessment work. The Agency, instead of reporting insufficient evidence cases separately, seek the information that they should have obtained at the outset so that they can establish whether or not such cases are accurate. These cases are brought into the Agency's results on completion of this further work as either accurate assessments or errors.
 - the National Audit Office results are based on cases where assessments have been made whereas the Agency's quality assurance results also include cases where staff have decided not to make an assessment.
19. While there are differences between the ways in which the two sets of results are compiled and reported, the National Audit Office and Agency results both indicate that there has been a significant improvement in the accuracy of maintenance assessments made by the Agency in 1995–96. The Agency recognise however that there is room for further improvement in accuracy rates. They have been set a target of 85 per cent accuracy, measured on a similar basis to their target for March 1996, to be achieved by March 1997.

Secretary of State's targets

Of the six operational Secretary of State targets, four have been achieved in full and one in part. Those fully achieved include our highest priority targets covering the amount of maintenance collected and arranged for payment and the accuracy of assessments.

Maintenance: £300 million to be collected or arranged for direct payment from absent parent to parent with care.

- Over £301 million was collected or arranged, with more than £136 million of this being passed through the collection service. Three-quarters of the total maintenance, either arranged or collected by the Agency, passes directly to parents with care.

Payment: 90 per cent of payments made to parents with care to be made within 10 working days of receipt from an absent parent.

- The target was consistently exceeded throughout the year. More than 600,000 individual payments were processed and 97 per cent were passed on to parents with care within 10 days. The remaining 3 per cent included invalid payments such as 'bounced' cheques.

Accuracy of assessments over the last year: to achieve a rapid and continuing improvement in accuracy, so that in at least 75 per cent of cases checked during March 1996 the cash value will be for the correct amount, to the last penny.

- Accuracy has, over the last year, substantially improved – March's accuracy rate was 79 per cent.

Reviews: where a client is dissatisfied with a Child Support Officer's decision and requests a review. 50 per cent to be cleared within 13 weeks, 80 per cent to be cleared within 26 weeks and no more than 20 per cent to be older than 26 weeks at 31 March 1996.

- At 31 March 1996, 52 per cent of cases had been cleared within three months. However, clearance within six months stood at 71 per cent and 27 per cent of review cases were over six months old.

Maintenance assessment clearance times: 60 per cent of new maintenance applications to be cleared within 26 weeks, and as at 31 March 1996 no more than 10 per cent of all applications received by the Agency to be over 52 weeks old.

- At 31 March 1996, figures showed that only 48 per cent of maintenance applications had been cleared within 26 weeks and 15 per cent of maintenance applications received were over 52 weeks old.

Client satisfaction: to achieve a score of 65 per cent on an index of client satisfaction with the Agency's service, as determined by an independent national survey.

- The composite score for client satisfaction was 45 per cent. Given the nature of the business and the length of time needed for client service improvements to achieve results, the Agency's improved performance, particularly the increase in the collection of

maintenance payments, is not necessarily reflected in the client satisfaction score. The survey findings will form the basis of in depth qualitative work in 1996, to gain a better appreciation of how we might improve client service.

Budget: to manage the Agency's resources so as to deliver its Business Plan within a total of £194 million.

- This target was achieved.

Since November 1993, the Agency has laid a monthly statistical report in the House of Commons Library for the use of Members and Peers. At that time, it was felt necessary to provide detailed information due to the disappointing early performance of the Agency. As the Agency's performance has significantly improved over the last 18 months, we intend to withdraw from this temporary arrangement and produce the report on a quarterly basis for a period.

Reducing the burden on the general taxpayer

In addition to the Secretary of State's targets, successfully reducing the burden on the general taxpayer was a key criterion in evaluating Agency performance in 1995/96. It was originally forecast that the Agency would save £540 million in benefit expenditure during 1995/96. This figure was adjusted in year to £510 million as part of a general revision of figures linked to volume and policy changes. The joint working processes between the CSA and BA were changed during 1995/96, which meant that some of the savings that would have been scored by CSA were instead scored by BA. Whilst it is difficult to quantify the precise effect, it is estimated that the difference between the £493 million achieved and the £510 million savings forecast can be attributed to this change.

CSA has worked closely with BA to progress a number of initiatives, to contribute to the prevention and detection of benefit fraud.

- during 1995/96, over 53,000 cases were recorded where a parent with care withdrew a claim to Income Support within four weeks of CSA action.
- CSA referred over 13,000 cases where benefit fraud was suspected to BA. Over 10,000 of these cases were accepted for investigation by BA and in 42 per cent of cases referred, benefit was either amended or withdrawn. This is considerably higher than the average success rate for fraud referrals (35 per cent).

Figure 5

Initiatives taken by the Agency to improve adjudication standards and the accuracy of maintenance assessments

- the introduction of quality assurance teams tasked with checking the accuracy of one per cent of all completed maintenance assessments;
- the Agency's quality objectives now receive the same prominence as their objectives for the quantity of cases processed;
- the development of quality plans focusing on improving standards;
- since February 1995 supervisory staff have been tasked with checking all items known to be prone to error, such as earnings and housing costs, before the completion of the assessments;
- extra training for staff, focusing on areas such as housing costs and earnings;
- additional training for supervisors to ensure standard of technical proficiency is adequate to perform their allocated quality checks;
- casework officers to retain responsibility for, and therefore ownership of, individual cases;
- improved recording of assessment decisions through the use of standard documentation and measures to improve the recording and filing of casework evidence;
- provision of refresher training during 1996-97 for all staff involved in key areas;
- establishment of a central team to provide expert advice to staff from summer 1996;
- computerisation of housing costs and earnings calculations during 1996-97.

14. As noted in paragraph 11, my examination indicated that there had been a significant improvement in accuracy in 1995–96. There was a reduction in the most frequent types of error found in previous years, indicating that the Child Support Agency's initiatives to secure improvements had met with some success. The most common categories of error in 1995–96 were staff making assessments in the absence of full information from parents and miscalculations of earnings and housing costs. Figure 4 provides examples of the types of error found by my examination in 1995–96.

Figure 4

Typical errors found by the National Audit Office examination in 1995–96

- the use of insufficient, conflicting or out of date information for items such as eligible earnings, unearned income, benefits or council tax;
- arithmetical mistakes;
- unexplained use of non-standard earnings periods, or inappropriate or unexplained treatment of bonuses or allowances in earnings calculations, or the inclusion of ineligible amounts such as personal drawings and VAT in expenses for self-employed people;
- incorrect rates used when calculating mortgage interest, and the use of ineligible costs such as insurance, service charges and arrears when calculating housing costs; and
- failures to clarify conflicting information when calculating the appropriate costs for parents who share the care of a qualifying child.

15. Since 1993 the Child Support Agency have taken a number of steps to improve their operational performance. These include measures specifically aimed at improving adjudication standards and the accuracy of maintenance assessments. The Agency have recently established a section dedicated to improving quality headed by a director who is a member of their Management Board. Figure 5 summarises the other key initiatives taken to date and those planned for 1996–97.

Milestone targets

Deferred cases: by the end of 1995, to commence the take-on of cases previously deferred in December 1994.

- In November 1995 the Agency began the controlled take-on of these deferred cases although, in practice, the Agency has continued to deal with deferred cases if a new claim for Income Support is made, or either the parent with care or the absent parent asks us to deal with their application.

Characteristics of outstanding maintenance applications: to examine the characteristics of outstanding maintenance applications and, by September 1995, draw up and implement a plan to enable the Agency to further improve the management of this work.

- This exercise was subsumed by a more comprehensive 'capacity planning' exercise covering key aspects of the Agency's business. The capacity planning exercise enabled CSACs to plan and prioritise their existing and projected workloads using information about volumes, productivity and resources. It also enabled management to review operational performance in order to meet key Secretary of State targets.

Statistical report: by March 1996, to collate, validate and analyse information to inform the wider evaluation of child support policy, and publish a regular statistical report.

- The Agency published its Annual Statistical Enquiry Report in February 1996.

Introduction

During 1995/96 we have consolidated changes introduced in the previous year. Simplification of procedures and enhancements to our systems have contributed to an improved performance in most areas of our business.

The focus of our strategies for improvement has been:

- implementation and consolidation of legislative and administrative change.
- improvements in management and accounting control.
- improved accuracy and quality in assessment work and client service.
- investment in training.
- preparing the Agency for the future.

Legislation – operational improvements

During the year, Ministers introduced further policy and operational changes which took account of many of the recommendations made by the Social Security Select Committee, the Parliamentary Commissioner for Administration, the Chief Child Support Officer and suggestions from within the Agency.

Many of these changes were outlined in the White Paper published in January 1995 *Improving Child Support*. Those measures which could be introduced quickly were introduced in April 1995.

The key changes were:

- the establishment of a maximum of child support maintenance payable, which means that no absent parent will be assessed to pay more than 30 per cent of net income in child support, or 33 per cent including arrears of maintenance.
- the introduction of measures to recognise high costs of travel to work and 'clean break' settlements which pre-date April 1993 when CSA came into being.
- the inclusion of housing costs of a new partner or step children in the assessment.
- the suspension of fees and interest charges.
- deferring the start of the maintenance assessment by eight weeks where an absent parent co-operates by returning a completed Maintenance Enquiry Form within four weeks.
- extended powers to implement Deduction from Earnings Orders (DEOs).

The results of the examination indicated that the proportion of financially accurate assessments in 1995–96 was 63 per cent, a significant improvement over the previous year.

12. In 21 per cent of the cases checked the value of the assessment was incorrect. In just over half of these cases the Child Support Agency had not obtained sufficient evidence to enable my staff to determine what the correct value should have been (category (d) at Figure 2). Where they were able to quantify the financial effect of the error (category (c) at Figure 2) two-thirds were under-assessments. The remainder were over-assessments. Figure 3 summarises the value of the errors.

Figure 3

Value of errors in cases examined by the National Audit Office

	Under-assessments (£ per week)	Over-assessments (£ per week)
Largest error	30.47	20.90
Smallest error	0.05	0.02
Average amount of correct maintenance due (a)	41.54	54.61
Average error (b)	6.98	5.02
Under-assessment or over-assessment as a proportion of the correct maintenance due [(b)/(a)]	16.8 per cent	9.2 per cent

Figure 3 shows that, on average, the value of under-assessment errors was greater than the value of over-assessment errors.

Action taken by the Agency to improve accuracy

13. If an assessment contains a financial error it is unlikely that it will be rectified before the case is fully reassessed. A full reassessment would normally take place following the review which the Child Support Agency are required to carry out after an assessment has been in force for two years. Once made, therefore, an error could remain undetected for some time. This underlines the importance of getting assessments right first time.

Results of the National Audit Office examination of maintenance assessments made in 1995–96

Figure 2

	1995–96 per cent		1994–95 per cent	
a. Maintenance assessments correct in all respects	45		33	
b. Maintenance assessments where adjudication errors had occurred, but which were nevertheless financially accurate (note 1)	18	63	14	47
c. Definite financial errors in maintenance assessments, the value of which could be determined	10		11	
d. Definite financial errors in maintenance assessments, the value of which could not be determined (note 2)	11	21	15	26
e. Maintenance assessments invalid, illegal or unenforceable (note 3)		3		10
f. Insufficient evidence to determine whether or not the maintenance assessments were accurate (note 4)		13		17
		100		100

Notes

- For example, a nil value maintenance assessment due to insufficient earnings, where the Agency's staff miscalculated the absent parent's protected income, could still have been a nil value assessment if it had been correctly calculated.
- There was sufficient evidence to determine that a financial error had occurred, but it was not possible to calculate the correct value of the assessment without seeking further information from one or more of the parties involved.
- Assessments which are unenforceable in law, such as interim maintenance assessment cases where the effective date of the assessment is incorrect.
- Assessments made in the absence of the necessary information. As a result there was insufficient evidence available to determine the accuracy of the assessment. The lack of evidence could only be rectified by the Agency seeking further information from one or more of the parties involved.

Reports on the quality of our work

During 1995/96 there have been several reports focusing on the Agency.

The Public Accounts Committee report of December 1995 reported on the Agency's first year of operation. Successful action has been taken to address the problems which arose in that first year.

The Parliamentary Commissioner for Administration (Ombudsman) has published a second special report following his investigations. Action continues to be taken to learn from mistakes and to improve our performance.

The Chief Child Support Officer's 1994/95 report identified improvements over the previous year and acknowledged that the key steps taken should result in continued improvement.

The Social Security Select Committee's most recent report acknowledged that the Agency is now on a surer footing and that a whole range of indicators pointed to improved performance. The Agency was congratulated on successful implementation of legislative and administrative change and on the progress made.

All these reports indicated that further improvement in our performance was required. This message is fully accepted by the Agency and we will continue to address the issues raised and build on a steadily improving performance.

Accuracy

The improvement of accuracy has been of the highest priority during the past year, with our focus on maintenance assessments which, in contrast with the discretionary assessment previously determined by the courts, must be accurate to the last penny.

The Agency recorded a 79 per cent accuracy rate in March 1996, exceeding the Secretary of State's target of 75 per cent.

A number of measures were introduced to promote this improvement.

- A new approach to handling casework was piloted. Complete Action Service Teams (CAST) bring staff members with expertise in the different aspects of casework together to deal with individual cases as a team. Early indications are that the CAST approach will result in improved communications, better quality of service and faster processing. It is our intention to extend CAST to all centres in the course of 1996/97.
- A decision form, which provides staff with a standard format on which to record complex maintenance adjudication decisions and the evidence on which the decision is made, has been piloted and will be implemented nationally during 1996.
- We have expanded our Quality Assurance teams and are in the process of improving technical and procedural advice to staff.

- A system of checks targeted at known areas of weakness and carried out prior to adjudication has been introduced.
- Revised quality checks on Operational Accounting have been tested and will be introduced nationally during 1996.
- We have invested in improvements to our computer system which corrected system errors and supported legislative and policy changes. We have also planned the automation of a number of key tasks.

Ensuring maintenance is paid

We have established a more rigorous and effective approach to ensuring maintenance is paid which focuses on the prompt identification and tracing of absent parents; early establishment of maintenance payments and prompt action when payments are not forthcoming.

The key measures taken included:

- early contact is now established with the absent parent once maintenance has been assessed to arrange payment before the account falls into arrears.
- a facility to defer the start of the maintenance assessment, if an absent parent quickly returns their Maintenance Enquiry Form.
- a facility where initial arrears may be limited to the most recent six months in cases where there has been a significant delay by the Agency, providing the absent parent meets their on-going liability in full, arranges a satisfactory arrears agreement and complies in full for 52 weeks. Almost 900 deferrals have been agreed in such circumstances.
- every possibility of contacting absent parents is now explored in an attempt to move away, wherever possible, from the use of interim maintenance assessments (IMAs), the values of which are, on average, 40 per cent higher than full maintenance assessments. The Agency is concentrating on more effective measures and the number of IMAs has been successfully reduced from over 60,000 in 1994/95 to less than 18,000 in 1995/96. This means more absent parents have their liability fully assessed at the outset and the Agency is better able to establish regular payment arrangements and reduce the growth of IMA 'debt', which is based on incomplete information and a high proportion of which is likely to be uncollectable.
- in 1995/96 over 55,000 specialist traces were successfully undertaken by the Agency, the vast majority of which referred to absent parents whose whereabouts were unknown to parents with care. This brings the total number of successful traces, since launch, to nearly 133,000. In many of these cases our staff have to establish paternity, which can be a difficult and sensitive process, requiring interviewing of alleged absent parents, DNA testing and court proceedings. We have introduced improved guidelines to support staff involved in tracing absent parents.

6. In making maintenance assessments Child Support Agency staff have to obtain information about the personal circumstances of absent parents and persons with care, for example their income, housing costs and other expenses. This can involve gathering over one hundred separate items of information, in some cases from people who are reluctant to cooperate. As a result of these factors there is a significant risk of error inherent in the assessment process.
7. There were significant changes to the scheme during 1995–96 following the White Paper "Improving Child Support". New regulations effective from 18 April 1995 modified the assessment arrangements to allow absent parents' travel to work costs to be taken into account. The maintenance formulae were also amended to ensure that absent parents would be left with at least 70 per cent of their net income after paying child support maintenance and the maximum amount payable was reduced.
8. Section 17 of the Child Support Act 1991, which relates to reviews of assessments when either parent reports a change in their circumstances was also amended. Under new powers contained in the Child Support Act 1995, from 22 January 1996 Child Support Agency staff were no longer required to re-confirm all the details relating to an existing assessment before amending it to take account of the change in circumstances notified. This streamlined approach should reduce the amount of paperwork sent to parents and is intended to speed up the amendment process.

The accuracy of child maintenance assessments

Background

9. In 1993–94 and 1994–95 a significant proportion of maintenance assessments made by the Child Support Agency contained errors. I drew Parliament's attention to this in my reports on the relevant accounts for those years.
10. The Committee of Public Accounts took evidence on the matter in June 1995 and were gravely disturbed at the incidence of error (First Report, Session 1995–96 (HC31)). The Treasury Minute (Cm 3172) issued in March 1996 acknowledged that the level of accuracy had been unacceptably low and confirmed that remedial action was being taken.

Results of 1995–96 audit

11. As part of my examination of the Child Support Agency's Client Funds account for 1995–96 the National Audit Office checked a representative sample of maintenance assessments made by the Agency's staff during the year. Figure 2 summarises the audit findings.

The Child Support Agency's principal activities

Child maintenance assessments	contacting absent parents
	completing assessments using the formulae contained in regulations approved by Parliament
	notifying both parties of the assessment made and arranging a suitable payment method
	reviewing assessments regularly and when there is a change of circumstances
Child maintenance payments	collecting payments at the request of either party
	passing on payments collected
	taking action to recover arrears and re-establish payment
Other	providing information and advice through publications and a national enquiry telephone line
	preparing and, where appropriate, presenting appeals to be heard by the independent Child Support Appeal Tribunal
	liaising with the Social Security Benefits Agency as required where clients are receiving benefit

Figure 1

- Parliament has approved detailed regulations which prescribe how applications for child support maintenance should be assessed. Child Support Agency staff calculate the amount due from absent parents using a series of formulae contained in the regulations. The formulae are used to work out the basic maintenance requirement in each case and the absent parent's ability to pay, the end product being an assessment of the maintenance due.

- the introduction, in July 1995, of a DNA Paternity Testing scheme, at discounted cost, which offers a means of resolving disputed paternity without the need to go to court. This has proved a quicker and cheaper way of resolving such disputes. Over 1,377 alleged absent parents have used the scheme, almost 10 times more than in the previous year. Of those tested, 85 per cent have proven to be the parent.
- improved management information and accounting controls to ensure that we respond to those parents who do not initiate or make regular payments.
- just under 53,000 DEOs which collect maintenance direct from salary have been issued, representing a 65 per cent increase over the previous year.
- over 1,300 liability orders have been obtained through the courts, in circumstances where a DEO is inappropriate, for example where the absent parent is self employed. This compares with 226 in the previous year.
- new powers were sought to register debt in the courts, which we anticipate will encourage self employed absent parents to comply with liability orders.
- in 1995/96 the Agency took the first committal proceeding against defaulters, where DEOs were inappropriate.

Controlling the workload

During 1995/96 we have concentrated effort on priority areas of work including the development of a Capacity Plan.

The key changes implemented were:

- the transfer of all information gathering prior to the maintenance assessment casework from CSACs to our Field Offices. In addition, the Field Offices have also taken on responsibility for paternity issues and for the resolution of 'Good Cause' issues, where a parent with care does not wish to identify or establish contact with an absent parent.
- stronger emphasis was placed by the CSACs on key tasks: servicing the existing caseload, processing new cases as they are submitted by the Field Offices and the enforcement of maintenance payments from non-compliant parents.
- the introduction of a streamlined approach to dealing with changes in circumstances.
- an exercise undertaken in the CSACs to improve handling and categorisation of caseloads, resulting in improved management information which enabled more effective targeting of resources.
- the introduction of new Work Flow Management procedures in our Field Offices, which will significantly improve control of applications in the lengthy and complex maintenance assessment process.

Child Support Agency

Client Funds Account 1995–96

Improving management information and IT systems

In 1995/96 key developments were:

- completion of our Information Systems Strategy Review.
- further enhancement of the Child Support Computer System (CSCS), most recently to support the legislative changes introduced in the 1995 Child Support Act.
- new Audit Trail facilities which track operational accounting transactions.
- establishment of a pilot to test wider access to the CSCS for staff working in Field Offices.
- development of a new system to support the introduction of Departure Directions.
- procurement of a Debt Management System to support and streamline current debt management systems which will be piloted early in 1996/97.
- the introduction in August 1995 of more user-friendly print-outs for clients who ask to see the data held on them, together with a significantly reduced response time, meaning these are issued well in advance of the legal requirement of 40 days.

The Data Protection Registrar (DPR) has been pleased by the dramatic reduction in the level of complaints received about the CSA this year. The Chief Executive and the DPR now meet on a regular basis to monitor progress. The DPR has welcomed the new computer system enhancements which will be introduced to deal with issues they raised.

In addition, a review team has been set up to examine the Agency's information collection and reporting mechanisms which will recommend both immediately achievable improvements and a long term strategy. This will ensure that the content, format and application of information collected best suits our business needs and is collected in the most flexible and cost effective manner.

Training

The Agency's core training needs are technical and business expertise, management and supervisory skills and good client service practice.

Our Business Training and Management Development Units produce and commission training materials which meet our specific needs. We have targeted training on the most complex areas of our business and on areas of identified weakness.

In 1995/96 we have:

- embarked upon a Training Needs Analysis to inform training requirements based on the experience of live running over the last three years and responding to forthcoming developments in the Child Support system.
- developed new adjudication training courses.

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

Summary

I have qualified my audit opinion on the Child Support Agency's Client Funds account because there was insufficient evidence available to determine the financial impact on the account of inaccurate maintenance assessments (paragraphs 20–22).

There has been a significant improvement in the accuracy of the Agency's maintenance assessment work in 1995–96. The Agency recognise however that there is still room for further improvement (paragraph 19).

I also report the outcome of the Agency's work to estimate the amount of uncollectable maintenance debt. The results indicate that £686 million, 77 per cent of the debt outstanding at 31 March 1996, may be uncollectable (paragraph 25). Much of this relates to interim maintenance assessments fixed at punitive rates which cannot be legally written off, or adjusted to reflect absent parents' ability to pay (paragraphs 26–29).

The absence of reliable management information about the outstanding debt has made it difficult for the Agency to control the debt effectively. They are continuing to take action to improve the quality and availability of information on debt and to strengthen their management of outstanding debt (paragraphs 37–39).

Introduction

1. I am required under section 5(3) of the Exchequer and Audit Departments Act 1921 to examine and certify the Child Support Agency Client Funds account. This report brings to Parliament's attention significant matters arising from my examination of the account for 1995–96.
2. The first part of the report (paragraphs 3–8) provides background information on the Child Support Agency's activities and on significant developments in 1995–96. The second part (paragraphs 9–22) sets out the results of my examination of the Agency's child maintenance assessment work and explains why I have qualified my opinion on the account. The final part (paragraphs 23–40) reports the steps taken to establish the recoverability of outstanding maintenance debt and the measures the Agency are taking to improve debt management.

Background

3. The Child Support Agency was established as an Executive Agency of the Department of Social Security in April 1993 to operate the new system of child maintenance introduced by the Child Support Act 1991. The main purpose of the Agency is to ensure that parents who live apart maintain their children whenever they can afford to do so, thus minimising the burden on the taxpayer.
4. The Child Support Agency's principal activities are summarised at Figure 1.

SCHEDULE 2

ADDITIONAL DISCLOSURE REQUIREMENTS

1. The foreword shall state that the accounts have been prepared in accordance with a direction given by the Treasury in pursuance of Section 5 of the Exchequer and Audit Departments Act 1921.
2. The foreword shall include a brief history of the Child Support Agency and its statutory background. Regard should be had to Annexes B and C of the Trading Accounts booklet.

Administration Accounts

3. The notes to the Administration Accounts shall include, inter alia:
 - (a) details of the key high level corporate financial targets set by the responsible Minister together with an indication of the performance achieved;
 - (b) a 'Statement of General Fund' showing how the Parliamentary grant received has been used to finance the deficit for the year. The statement shall also show separately the balance of the General Fund brought forward from the previous financial year as adjusted by subsequent reconciliation with the actual grant for that year and the balance carried forward to the next;
 - (c) if appropriate, an analysis showing the financial objectives, full cost, income, surplus/deficit and performance against financial targets for each service.

Client Funds Account

4. The Child Support Agency shall prepare in respect of the financial year ended 31 March 1996 and in respect of any subsequent financial year a Client Funds Account. This shall be published along with the Agency's Administration Accounts.
5. The Client Funds Account shall be signed and dated by the Chief Executive after the statement of balances.
6. The notes to the Client Funds Account shall include a summary of the maintenance balances at the beginning and end of the year and the movements thereon during the year. The summary should also disclose the extent to which any outstanding maintenance debt is likely to be collected. The balances of maintenance due from absent parents should show the maintenance due to persons with care and the Secretary of State separately.

Reproduction of Accounts Direction

7. The accounts direction (excluding the Annex) shall be reproduced as an appendix to the accounts.

- ensured that all Child Support Officers have benefited from a minimum of two days adjudication training during 1995/96.
- revised adjudication training to address the complex areas of housing and income calculations and associated evidence gathering.
- developed technical training programmes to enhance staff skills in operating CSCS and further enhancements to that system.
- designed training programmes for the new Departures and Debt Management systems.
- undertaken new training initiatives to improve the standard of communications and help our staff communicate more effectively with their clients.
- launched a programme of technical and management skills training for our Team Leaders.
- designed a development programme for Senior Managers, covering core areas of business planning, financial management and quality.
- developed a comprehensive training package for new entrants to our Field Offices.
- designed a wide variety of specialist training in areas such as Appeals Presentation and Court Representation.
- established a programme to enable trainers to obtain professional qualifications.

Relocation of CSA headquarters

During 1995/96 we relocated most of our headquarters operations from London.

- Most of our centralised support work – finance, technical and procedural advice – was moved to sit alongside our existing operation in Newcastle-upon-Tyne by January 1996.
- In March 1996 our Personnel Directorate moved to Hastings where it is located with our Management Development Unit at the CSAC.
- Remaining core HQ functions – Communications and Client Service – will move to Dudley, where they will be sited alongside the Chief Executive and the CSAC.

Requirement to co-operate procedures

The Government accepted the Social Security Select Committee recommendation that the requirement to co-operate or 'Good Cause' procedures be reviewed. The Agency was tasked to conduct the review. A number of external and voluntary organisations participated in this review which showed that the Agency was administering the 'Good Cause' scheme effectively and in line with the original intention. The work has identified a number of operational improvements and the Agency is now in the process of implementing its recommendations.

Preparing for Departures

The Child Support Act 1995 set out the foundations of a system of Departure Directions. This system makes provision for the small proportion of exceptional cases which the Government recognises cannot be fairly treated by the maintenance assessment formula.

We will continue to calculate maintenance using the maintenance formula, but there will be limited discretion to take account of certain prescribed circumstances, for example, taking account of high costs of maintaining contact with children.

The Agency introduced a pilot scheme in April 1996. It is intended that the full scheme will be introduced towards the end of 1996 following evaluation of the pilot scheme.

SCHEDULE 1

CHILD SUPPORT AGENCY: ADMINISTRATION ACCOUNTS

APPLICATION OF THE COMPANIES ACT’S REQUIREMENTS

1. The disclosure exemptions permitted by the Companies Act in force for the financial period for which the accounts are to be prepared shall not apply to the Child Support Agency unless specifically approved by the Treasury.
2. The foreword shall contain the information required by the Companies Act to be disclosed in the Directors’ Report, to the extent that such requirements are appropriate to the Child Support Agency.
3. In preparing its operating account, the Child Support Agency shall adopt format 1 prescribed in Schedule 4 to the Companies Act 1985 modified to the extent necessary to give the information described in paragraph 2 of Schedule 2.
4. In preparing its balance sheet, the Child Support Agency shall adopt format 1 prescribed in Schedule 4 to the Companies Act 1985 to the extent that such requirements are appropriate to the Agency. Regard should be had to the examples in Annex C of the Trading Accounts booklet, in particular the requirement to strike the balance sheet totals at ‘Total assets less current liabilities’.
5. The foreword and balance sheet shall be signed and dated by the Chief Executive.
6. Although the Agency prepares its accounts under modified historic cost convention, it is exempt from providing the additional information required by paragraph 33(3) of Schedule 4 of the Companies Act.

(c) any disclosure and accounting requirements which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view; and

(d) any additional disclosure requirements contained in 'The Fees and Charges Guide', in particular those relating to the need for appropriate segmental information for different services or forms of service provided for which a charge is made;

insofar as these are appropriate to the Child Support Agency and are in force for the financial period for which the accounts are to be prepared.

4. Additional disclosure requirements are set out in Schedule 2 of this direction.

5. The operating account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of fixed assets at their value to the business by reference to current costs.

Client Funds Account

6. The Client Funds Account shall be in the format shown in the Annex to this direction and properly present the receipts and payments and cash balances of the Client Funds. Subject to the foregoing requirement, and without limiting the information given and as described in Schedule 2, minor amendments to the format of the account, e.g. to reflect changes in circumstances or for the purpose of improving clarity, may be made with the agreement of the National Audit Office and without further reference to the Treasury.

Jamie Mortimer
Treasury Officer of Accounts

Date: 19 June 1996

Introduction

It has been a very challenging year in which we have introduced many operational changes, whilst endeavouring to improve the level of service offered to our clients.

Telephoning the Agency

Our CSACs operate Client Help Lines (CHL) which are charged at local rate tariffs. Whenever possible, CHL operators will provide an immediate response to an enquiry. On occasions where this is not possible, CHL operators offer a call-back service. This service helps us give our clients accurate information, whilst keeping their telephone charges to a minimum.

The Agency also operates a National Enquiry Line service (0345 133 133) which provides general advice on all aspects of the CSA including general advice to employers about DEOs. The service operates from 9 am to 5 pm, Monday to Friday.

Replying to letters

We receive many letters from Members of Parliament, asking for information, making enquiries or registering complaints on behalf of constituents. In 1995/96 over 18,000 replies were prepared by the Parliamentary Correspondence Unit (PCU) and CSAC Managers. At 31 March 1996, 86 per cent of letters awaiting reply within PCU were less than four weeks old and no letter was more than six weeks old.

Responsibility for drafting replies to MP's letters has now been devolved to CSACs. This change will improve the quality and detail of information provided in answers because staff with direct knowledge of the case will be more closely involved in the response.

Replying to parliamentary questions

We receive and respond to written questions from Members in both Houses of Parliament.

During 1995/96 the Agency prepared answers to 229 questions received from a total of 44 Members. The number of questions asked varied from 104 questions tabled by one Member to 27 Members who each asked one question.

Reviewing Agency literature

We have made efforts to ensure our literature explains the child support system in a clear and easy to understand format.

There are more than 60 leaflets, tapes and posters covering the range of the Agency's business, designed for different groups in the community.

Our main information leaflet *For Parents Who Live Apart* is available in English, Welsh and 11 other languages as well as large print, audio, Braille and ASCII computer disk versions. In 1996 a version of this leaflet will be available on the Internet.

We employ Welsh speaking staff in our Welsh Field Offices and in our Birkenhead centre, who deal with correspondence and telephone enquiries in Welsh. In response to the requirements of the Welsh Language Act, we have recently published a consultation document.

In March 1996 CSA became the first organisation to receive statutory approval for its Welsh language scheme from the Welsh Language Board.

Since the CSA Literature Line began operating in 1993, the use of the line has gradually decreased to an average of just 10 calls a day. Because of this, we have decided to offer the service in-house through the National Enquiry Line. Clients and customers who want CSA literature will still be able to receive it by dialling 0345 133 133.

Independent case examiner

The Agency has been preparing for the appointment, during 1996, of an independent case examiner. This is in line with recommendations from both the Social Security Select Committee and the Parliamentary Commissioner for Administration (Ombudsman). From April 1997, the examiner will provide a new impartial investigation service to CSA clients who are dissatisfied with the handling of their case by the Agency's internal review process.

The service will not deal with disputes on matters of law and will remain distinct from the function of the Ombudsman.

Special payments

The Agency has non-statutory arrangements whereby a special payment may be considered when a clear, unambiguous error or unreasonable delay results in a measurable financial loss. This is in line with the Department of Social Security's policy on special payments and offers clients, who consider they have a genuine grievance against the Agency's administration, the opportunity to seek redress.

During 1995/96 we prepared for changes to the special payment arrangements to:

- reduce the 'waiting period' applied to cases of delayed issue of maintenance application forms and Maintenance Enquiry Forms.
- introduce a new category of consolatory payment of £100 where the Agency has issued a Maintenance Enquiry Form to the wrong person.

Appendix

Accounts direction given by the Treasury

The Treasury, in pursuance of Section 5 of the Exchequer and Audit Departments Act 1921, hereby gives the following Direction.

1. The statement of accounts which it is the duty of the Child Support Agency to prepare in respect of the financial year ended 31 March 1996 and in respect of any subsequent financial year shall comprise:

- (a) a foreword;
- (b) **Administration Accounts** comprising:
 - (i) an operating account;
 - (ii) a statement of total recognised gains and losses;
 - (iii) a balance sheet;
 - (iv) a cash flow statement;

including in each case such notes as may be necessary for the purposes referred to in paragraphs 3 and 5 below; and

- (c) a **Client Funds Account** comprising a receipts and payments account, statement of cash balances and such notes as may be necessary for the purposes referred to in paragraph 6 below.

2. The Child Support Agency shall observe all relevant accounting and disclosure requirements given in 'Government Accounting' and in the Treasury booklet 'Trading Accounts: A Guide for Government Departments and Non-Departmental Public Bodies' (the 'Trading Accounts booklet') as amended or augmented from time to time.

Administration Accounts

3. The Administration Accounts shall give a true and fair view of the income and expenditure, state of affairs and cash flows of the Child Support Agency. Subject to the foregoing requirement, the accounts shall also, without limiting the information given and as described in Schedule 1 of this Direction, meet:

- (a) the accounting and disclosure requirements of the Companies Act;
- (b) best commercial accounting practice including accounting standards issued or adopted by the Accounting Standards Board with the exception of the requirement contained in FRS 3 for the inclusion of a note showing historical cost, profits and losses;

in full. Under current legislation, they cannot be reduced or written off by the Agency. These debts are therefore likely to remain uncollected from absent parents.

Of the total value of maintenance debt outstanding at 31 March 1996 (£895.6 million), the Agency estimates that £541.9 million relates to debt where there is a current IMA; and of this, up to £29.3 million is collectable, up to £77.5 million is possibly uncollectable, and up to £435.1 million is probably uncollectable, based on figures from the Agency's debt analysis exercise.

Child support legislation relating to IMAs was amended with effect from 18 April 1995. Each IMA issued from that date can be replaced by an FMA when the absent parent provides sufficient information. The Agency consider that this change will result in more realistic levels of debt accruing which are more likely to be collected from absent parents. This is supported by the figures from the debt analysis exercise which shows that for IMA debt 8.5 per cent of the number of cases is collectable and for FMA debt 69.9 per cent of the number of cases is collectable.

The remaining debt outstanding at 31 March 1996 (£353.7 million) relates to debt where there is a current FMA. A significantly higher proportion of this debt is being paid by absent parents, the Agency estimates that up to £180 million is collectable, up to £110.1 million possibly uncollectable and £63.6 million probably uncollectable.

The results from the Agency's debt analysis exercise undertaken in April 1996 are fully reproduced below.

Analysis of maintenance debt as at 31 March 1996

Type of debt		IMA debt	FMA debt	All debt
Collectable	Value of debt	£29.3m	£180m	£209.3m
	% of debt	5.4%	50.9%	23.4%
	% of cases	8.5%	69.9%	53.4%
Possibly uncollectable	Value of debt	£77.5m	£110.1m	£187.6m
	% of debt	14.3%	31.1%	20.9%
	% of cases	19.9%	19.3%	19.4%
Probably uncollectable	Value of debt	£435.1m	£63.6m	£498.7m
	% of debt	80.3%	18.0%	55.7%
	% of cases	71.6%	10.8%	27.2%
Totals	Value of debt	£541.9m	£353.7m	£895.6m

The improvements are effective from 1 April 1996 and were made in the light of our early experiences to reflect the nature of Agency business.

During 1995/96, 664 payments were made and the total amount paid was just over £174,100. This included 494 payments amounting to £58,400 paid as part of an exercise to rectify incorrectly assessed minimum maintenance payments attributed to absent parents.

Processing appeals

Our centralised Appeals Unit was set up to improve our performance in dealing with appeals. The Unit has now completed its first full year of operation.

The Unit has achieved a significant improvement in results, acknowledged by the Independent Tribunal Service, in reducing the number of outstanding appeals and improving the quality of submissions.

Over 8,000 appeals have been cleared, exceeding the number lodged in the course of the year, and reducing the backlog of work by 33 per cent. Only 9 per cent of cases awaiting submission to the Independent Tribunal Service were over three months old at the end of March 1996.

Our improved performance in clearing appeals has, however, produced an increase in cases requiring reassessment following tribunal hearings. To address this we will be centralising these reassessments in our Appeals Unit during 1996.

Liaison with stakeholders in our business

A wide variety of groups are interested in the way we conduct our business and in the future development of the child support system.

The regular six monthly consultation meetings held by the Chief Executive with our major stakeholders, which were introduced in Autumn 1994, continue to prove a valuable forum for discussion. In November 1995 discussions included our review of procedures concerning parents with care who claim 'Good Cause' for non pursuit of maintenance from an absent parent and the plans for our trial of the 'Departures System'.

Our Field Office staff have continued to foster links and maintain regular contact with outside bodies and local voluntary groups. This has resulted in a variety of initiatives such as attending conferences, providing speakers to groups, staffing exhibition stands at events and advice clinics being undertaken.

These initiatives have been met with a positive and constructive response from stakeholder groups and individuals.

Closer working arrangements

The Agency has continued to explore opportunities for closer working arrangements with other DSS Agencies and other Government Departments. Measures included:

- work to develop further initiatives with BA, to make joint working processes more efficient, started in 1995/96. The two Chief Executives will meet every six months to discuss issues of common interest. Liaison arrangements between the two Agencies have been improved at a number of levels.
- a National Service Statement (NSS) with the Contributions Agency (CA) covering a three year period was established in February 1996. It details the agreement of the two Agencies to work closely to ensure the services provided best meet the needs of both Agencies, the DSS and its clients. The Agencies co-operate, for example, in tracing absent parents and in obtaining information regarding the earnings of self employed absent parents. Provision has been made within the NSS to allow the development of further opportunities for closer working in the future.

Charter standards

The Agency's service standards were set out in the Child Support Agency Charter (CSA 2027/April 1993), to coincide with the Agency's launch three years ago. However, some early standards have not proved compatible with the way our business has developed.

The Agency is in the process of drawing up a new Charter following consultation with the Citizen's Charter Unit, stakeholders and staff, which will more accurately reflect the nature and complexity of the Agency's business. The new Charter will be published in Autumn 1996.

The disappointing performance against some of the standards underlines the need to develop standards which are consistent both with the principles set in the Citizen's Charter and better reflect our business as it is today.

Comparative figures on the collectability of the debt are unavailable for 1994/95 as the above breakdown was the result of the Agency's debt analysis exercise which was performed for the first time in April 1996 for debt outstanding as at 31 March 1996.

Fee income is accounted for in the administration accounts of the Agency.

- 6a) An initial amount comprises all money due from the date a Maintenance Enquiry Form is issued until either the full or interim maintenance assessment is issued.
- 6b) Cases where the liability has been reduced (for example, where there has been a direct payment which is set against the maintenance scheduled, or a change in circumstances).
- 6c) Some £723 million (1994/95: £439 million) were due to the Secretary of State and some £173 million (1994/95: £86 million) were due to persons with care.
- 6d) In April 1996 the Agency undertook a debt analysis exercise to establish the collectability of debt outstanding as at 31 March 1996. This analysis established three categories for the total debt, i.e. collectable, possibly uncollectable and probably uncollectable.
- 6e) **Probably uncollectable**
Maintenance debt which the debt analysis exercise revealed is likely to be very difficult to collect, due in the main, to factors regarding the circumstances of the absent parent.
- 6f) **Collectable**
Maintenance debt which the debt analysis exercise revealed will be collected. This includes factors such as regular contact with the absent parent, where regular payments are being made or an arrears agreement has been set up.
- 6g) **Possibly uncollectable**
Maintenance debt which the debt analysis exercise revealed some uncertainty over whether it will be collected. The debt is 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 (DEO). Some of the debt may be collected but some may not.
- 6h) The Agency estimates that at least 60 per cent of the maintenance debt arises from Interim Maintenance Assessments (IMAs) imposed on absent parents who failed to provide sufficient information required to enable the Agency to make Full Maintenance Assessments (FMAs) under the child support legislation in force up to April 1995. In accordance with the legislation, these IMAs were set at punitive levels and had no regard to the financial circumstances of those absent parents or to their ability to pay. The individual debts accruing under these IMAs are typically large and will remain due

Note 6 – maintenance due: movements in and balances on client funds account

	£'000	1995/96 £'000	1994/95 £'000
Maintenance outstanding at 31 March 1995		525,187	94,919
Maintenance scheduled as due 1995/96			
Initial amounts (see note 6a)	91,440		160,800
Regular	471,880		379,568
Interest	1,920		16,600
	<u>565,240</u>		<u>556,968</u>
Less: adjustments (see note 6b)	<u>58,065</u>		<u>52,500</u>
	507,175		504,468
Less: received and allocated	<u>134,450</u>		<u>74,200</u>
	372,725		430,268
Less: deferred debt	<u>2,343</u>		<u>0</u>
Net movement on maintenance outstanding 1995/96		370,382	430,268
Maintenance outstanding at 31 March 1996 (see notes 6c, 6d and 6h)		895,569	<u>525,187</u>
of which:			
Probably uncollectable (see note 6e)		(498,687)	
Balance carried forward		396,882	
of which:			
Collectable (see note 6f)		209,320	
Possibly uncollectable (see note 6g)		187,562	

Performance against Charter standards 1995/96:

- To provide a maintenance assessment within 5 days of receiving all the information we need from both parents Achievement 7 per cent
- To respond to 80 per cent of all telephone calls within 20 seconds
 - a) to the National Enquiry Line Achievement 91 per cent
 - b) to the Child Support Agency Centres Achievement 37 per cent
- To respond to written enquiries within 10 working days Achievement 40 per cent
- To acknowledge written complaints within 2 working days Achievement 89 per cent
- To issue a full response within 10 working days Achievement 43 per cent
- To see callers in local offices within 20 minutes Achievement 100 per cent

Appendix 1

Key workload volumes

Maintenance assessment

This relates to the work involved in dealing with a new application for maintenance to be assessed. Included in the total clearances are cases in which it is not possible to complete an assessment (for example, because the absent parent lives abroad, where paternity is not proved, where a parent with care withdraws their application before a case has been assessed, or where 'Good Cause' for not co-operating with the Agency is accepted).

● Maintenance Application Forms issued	307,480
● Total clearances	326,854
● Work in hand at 31 March 1996	409,659

(The Agency would expect to have around 250,000 in hand at any one time.)

Account maintenance

This relates to the day-to-day servicing of cases in which maintenance is due to be paid through the Agency collection service. This includes dealing with post and telephone calls, and acting on alerts from the computer system that intervention is required (for example, when a payment is overdue).

● Work received	1,466,196
● Work cleared	1,466,735
● Work in hand at 31 March 1996	37,764

Debt management

This relates to taking action on a case when it falls into arrears.

● Work received	89,351
● Work cleared	85,735
● Work in hand at 31 March 1996	61,377

Litigation

Cases are referred for litigation when an absent parent fails to pay after debt management action and a DEO is not appropriate (for example if the absent parent is self employed). It involves taking court action to obtain a liability order, and subsequent enforcement of the order through the courts.

● Work received	15,780
● Work cleared	15,186
● Work in hand at 31 March 1996	5,969

Notes to the account

Note 1 – accounting basis

This account has been prepared on a cash basis and in the form directed by the Treasury. The Accounts Direction is reproduced in the Appendix at pages 63 to 66.

Note 2 – receipts from clients

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

Note 3 – receipts from the Secretary of State

Receipts from the Secretary of State are issues from the Department of Social Security's appropriation account for Class XIII, Vote 4, to finance refunds of overpayments by absent parents who were in receipt of benefits and whose future maintenance was nil; and to compensate clients who had incurred actual losses due to errors or delays by the Agency.

Note 4 – interest received and paid

Since April 1995, interest has been received on balances deposited in the client funds bank account – previously, in return for not levying charges for the operation of the account, no interest was received. The Agency now pays such charges through a central Departmental budget and at present there are no arrangements to allocate this to the Agency.

Also from April 1995, persons with care may, in specific circumstances, be entitled to receive interest payments when the Agency, through its own fault, delayed paying over maintenance received. Of the interest received in 1995/96 (£69,000), £3,000 was paid to persons with care. The amount paid out is included in the payments to persons with care. The balance of £66,000 was due to be paid over to the Secretary of State. A further £157,000 was accrued at the year end but not received until after this date.

Note 5 – balances on the client funds account

The balances relate to the child maintenance collected but not yet paid over to persons with care or to the Secretary of State and fees collected but not yet paid over to the Agency.

Client funds account 1995/96

Receipts and payments for the year ended 31 March 1996

	Notes	1995/96 £'000	1994/95 £'000
Receipts:			
from clients	2	133,508	79,422
from Secretary of State	3	–	165
Bank interest	4	69	–
		133,577	79,587
Less payments to:			
persons with care		61,151	26,622
Secretary of State (benefits repaid)		68,195	47,873
the Agency (CSA fees)		290	1,994
absent parents (refunds)		2,032	1,203
Total payments		131,668	77,692
Net receipts		1,909	1,895
Balance as at 1 April 1995	5	6,313	4,418
Balance as at 31 March 1996	5	8,222	6,313
Statement of balances at 31 March 1996		1996 £'000	1995 £'000
Funds awaiting clearance	5	3,169	3,459
Cleared funds awaiting distribution	5	5,053	2,854
Balance on bank account		8,222	6,313

The account was approved by the Chief Executive on 26 June 1996



Miss Ann Chant
Chief Executive

The Notes on pages 59 to 62 form part of this account.

Second tier reviews

If a client thinks that the decision about their maintenance assessment is wrong they have the right to have the decision reviewed. The case is looked at by a different Child Support Officer. This is known as a second tier review.

• Requests received	33,444
• Requests cleared	26,955
• Work in hand at 31 March 1996	11,189

Appeals

If a client thinks that the maintenance assessment is wrong they have the right of appeal to an Independent Tribunal, known as the Child Support Appeal Tribunal. Clients send their appeals to the Independent Tribunal Service (ITS), who then ask the Agency to prepare a submission setting out the facts of the appeal.

• Appeals received from ITS	7,121
• Appeal submissions returned to ITS	8,117
• Work in hand at 31 March 1996	1,960

Appendix 2

Targets for 1996/97

Collection

A band of £380 million to £400 million of maintenance to be collected or arranged for direct payment from absent parent to the parent with care in 1996/97.

Payments

95 per cent of payments to the parent with care to be made within 10 working days of receipt from an absent parent.

Accuracy

To achieve a continuing improvement in accuracy so that in at least 85 per cent of cases checked during March 1997 the cash value of the assessment will be correct.

Second tier reviews

Where a client is dissatisfied with a Child Support Officer's decision and requests a review, 55 per cent to be cleared within 13 weeks; 80 per cent within 26 weeks; and no more than 15 per cent to be older than 26 weeks on 31 March 1997.

Maintenance assessments

60 per cent of new maintenance applications to be cleared within 26 weeks and on 31 March 1997 no more than 10 per cent of all maintenance applications received by the Agency to be over 52 weeks old.

Milestone target

To undertake qualitative in depth research by 31 December 1996 which will inform future client service improvements.

Qualified opinion: disclaimer on view given by financial statement

Because of the frequency of assessment errors and their value, where this is known, and the limitation in evidence available to me, I am unable to form an opinion as to whether the Child Support Agency's Client Funds Account properly presents the receipts and payments, arising from amounts due from clients, for the year ended 31 March 1996 and the balances at that date.

In all other respects, in my opinion the Account has been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and directions made thereunder by the Treasury.

Details of this matter are set out in paragraphs 9 to 22 of my Report at pages 69 to 75.

John Bourn
Comptroller and Auditor General
28 June 1996

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

Annual Statement of Accounts for the year ended 31 March 1996

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

I certify that I have audited the financial statement on pages 58 to 62 under the Exchequer and Audit Departments Act 1921.

Respective responsibilities of the Child Support Agency and its Chief Executive, and the Auditor

As described on page 55, the Child Support Agency and Chief Executive are responsible for the preparation of the Client Funds Account. It is my responsibility to form an independent opinion, based on my audit, on that Account and to report my opinion to you.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in financial statements. It also includes an assessment of the judgements made by the Child Support Agency and Chief Executive in the preparation of the Account.

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 Client Funds Account is free from material misstatement, whether caused by error, or by fraud or other irregularity. However, my audit indicated that 21 per cent of assessments giving rise to transactions underlying the Client Funds Account were inaccurate. In addition, a further 13 per cent of assessments were made in the absence of some of the required information. The evidence available to me was limited and I was unable to determine with reasonable certainty the probable extent of these assessment errors or to make a reasonable estimate of their financial impact.

In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Statement of Agency's and Chief Executive's responsibilities

Under Section 5 of the Exchequer and Audit Departments Act 1921, the 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 the Accounts Direction in the Appendix to the Agency's accounts. 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 of Social Security has appointed the Chief Executive of the Child Support Agency as the Accounting Officer for the Agency. Her relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of all funds for which she is answerable and for keeping proper records, are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in Government Accounting (HMSO).



Date: 26 June 1996

Miss Ann Chant
Chief Executive

Annual statement of accounts for the year ended 31 March 1996

Foreword to the Accounts

Statutory background

The CSA was established as an Executive Agency of the DSS on 5 April 1993 under the 'Next Steps' initiative.

The Agency presents its audited accounts for the financial year ended 31 March 1996. The accounts have been prepared in accordance with the Treasury Accounts Direction reproduced in the Appendix to these accounts and in pursuance of Section 5 of the Exchequer and Audit Departments Act 1921.

Principal activities

The Agency is responsible for the assessment and collection and, where necessary, enforcement of child support maintenance.

Administration accounts

The Operating Account shows, on an accruals basis, income received for the provision of assessment and collection services, and the net cost of operations.

The net cost of operations, which amounted to £199 million represents the value of work undertaken by the Agency on behalf of the Secretary of State. It has been calculated after including a number of notional and other non-cash costs which are borne by the Exchequer. Details are given in the Notes to the Accounts.

Client Funds account

This account, prepared on a cash basis, primarily shows child maintenance received from absent parents and fees received from absent parents and persons with care; child maintenance and fees collected and paid over respectively to persons with care or to the Secretary of State (maintenance) and to the Agency (fees); and the balance of cash received awaiting clearance and payment over at the year end. It also includes interest on balances in the Client Funds bank account and interest paid to persons with care.

Research and development

It is the Agency's policy to keep abreast of all technical innovations, products and systems developments in the fields in which it operates.

Client Funds Account

Tangible fixed assets

The Agency does not own any of the freehold or long leasehold premises, or related land, which it occupies. During 1995/96 the Property Repayment System, managed by Property Holdings, was in operation, under which a rental, based on current market rent, was paid and charged to the Operating Account.

Tangible fixed assets are valued at their net current replacement cost. Details of changes in fixed asset balances over the year, as given in Note 7, include additions for the year of £2.17 million. Relevant proportions of the tangible fixed assets exclusively and jointly used by the Belfast CSA centre are included. Tangible fixed assets used exclusively by CSA Northern Ireland and their share of those used jointly are excluded.

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 contracts. If there is no contractual provision or other understanding they are due to be paid within 30 days of the receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever is later. During the year 91 per cent of bills were paid within this standard.

Reserves

The net cost of operations for the period was £199 million which has been transferred to the General Fund.

Disabled employees

The CSA complies with Equal Opportunities legislation and follows DSS policy in relation to disabled employees. Initiatives include a disability survey, funding for special aids and equipment and employment of staff under the Supported Employment Scheme.

Audit

These accounts have been audited by the Comptroller and Auditor General. His Certificate and Report on the Administration Accounts is on pages 34 and 35 and his Certificate and Report on the Client Funds Account are on pages 56 and 57, and 67 to 78 respectively.

Board members

The CSA Board comprises:

Miss Ann Chant	Chief Executive
Mr Steve Heminsley	Business Development and Support Director (appointed 01/06/95) Deputy Chief Executive (appointed 29/02/96)
Mr Mick Davison	Finance Director (appointed 04/09/95)
Ms Claudette Francis	Personnel Director
Mr Mike Isaac	Operations Director (appointed 09/04/96)
Mrs Chris Peters	Quality and Communications Director (appointed 09/04/96)
Mr David Thornham	Non Executive Board Member (appointed 10/01/96)
Mr John King	Non Executive Board Member (appointed 01/02/96)

Mr Peter Sharkey ceased to be Business Development and Support Director with effect from 17 April 1995.

Mr John Sweetman was Acting Business Development and Support Director from 21 April to 31 May 1995.

Mr John Hughes ceased to be the Policy Liaison Director on 29 August 1995.

Mr Derek Rutherford CBE ceased to be Finance Director on 3 September 1995.

Mr Anthony Ward retired from the position of Operations Director and Deputy Chief Executive on 29 February 1996.

Mr Steve Bocking was Acting Operations Director from 29 February to 9 April 1996.

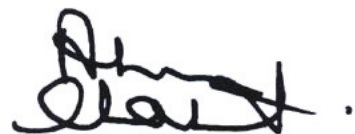
Post year-end events

Fees suspension

Legislative changes introduced from 18 April 1995 suspended the charging of interest and fees for two years. Discussions are currently taking place over the reintroduction of fees and a system of introducing penalties in 1997. Details will be released when available.

Information Technology Services Agency

A change in IT asset ownership has been implemented throughout the DSS group with effect from 1 April 1996. As a result, ownership of computers and printers previously held by Information Technology Services Agency transfer to the business unit in whose premises they are located.



Miss Ann Chant
Chief Executive

Date: 26 June 1996



Miss Ann Chant



Mr Steve Heminsley



Mr Mick Davison



Ms Claudette Francis



Mr Mike Isaac



Mrs Chris Peters



Mr David Thornham



Mr John King

Note 15 – notes to the cash flow statement

(a) Reconciliation of operating deficit to net cash outflow from operating activities:

	1995/96 £'000	1994/95 £'000
Net cost of operations before interest	(198,718)	(191,575)
Depreciation	2,162	1,996
Fees written off	185	0
Loss on disposal of fixed assets	0	2
Notional operating costs	12,923	21,735
Decrease in debtors	4,743	2,163
Increase in creditors	322	3,032
Increase in provision for liabilities and charges	77	0
Net cash outflow from operating activities	<u>(178,306)</u>	<u>(162,647)</u>

(b) Analysis of changes in cash and cash equivalents during the year:

	1996 £'000	1995 £'000
Balance as at 1 April 1995	2	1
Net cash (outflow)/inflow	(1)	1
Balance as at 31 March 1996	<u>1</u>	<u>2</u>

Cash and cash equivalents comprise only the petty cash balance. There are no bank overdrafts or short term investments.

(c) Reconciliation of financing:

	1995/96 £'000	1994/95 £'000
Advances from DSS	183,824	166,573
Less: non-Agency capital additions	(3,639)	(1,932)
Net cash inflow from financing	<u>180,185</u>	<u>164,641</u>

The cost of major improvements to occupied properties (£3.6 million shown above) has been deducted from the operating costs as the Agency is already charged rent on the properties which it occupies. This rental charge includes an amount for building improvements and the adjustment is to avoid double charging in the accounts.

Administration Accounts

(b) Revaluation reserve

	Notes	1995/96 £'000	1994/95 £'000
Balance as at 1 April 1995		466	229
Surplus on revaluation of fixed assets	7	78	252
Charge for current cost backlog depreciation	7	(45)	(15)
Balance as at 31 March 1996		<u>499</u>	<u>466</u>

The revaluation reserve represents the revaluation of fixtures and fittings, IT equipment, office machinery and motor vehicles to current cost.

(c) Net movement in Government Funds

	1995/96 £'000	1994/95 £'000
Net movement in General Fund	(5,424)	(4,143)
Net movement in Revaluation Reserve	33	237
Net movement in Government Funds	<u>(5,391)</u>	<u>(3,906)</u>

Note 13 – capital commitments

Amounts contracted for but not provided in the accounts amounted to £0.1 million (1994/95: £0.6 million).

Amounts authorised by the Board but not contracted for were £ nil (1994/95: £0.6 million).

Note 14 – contingent liabilities

From April 1995 some debt has been deferred and will not be recoverable from clients provided certain conditions are met. This could result in the Agency taking over such debt from persons with care. The maximum potential liability at 31 March 1996 is £2.343 million, subject to all the cases meeting the criteria. As no monies have been paid out to date, it is too soon to predict with any accuracy the amount which may be compensated and therefore no provision has been made in the accounts this year.

Note 12 – reconciliation of movement in reserves and government funds

(a) General fund

	Notes	1995/96 £'000	1994/95 £'000
Balance as at 1 April 1995		11,211	15,354
Net cash inflow from financing 1995/96	15c	180,185	164,641
Transferred from Operating Account		(199,268)	(192,393)
Costs of services provided by other DSS Agencies and DSS HQ		12,206	21,156
Notional costs and other non-cash charges		1,167	1,397
Fixed asset purchases by other Agencies on behalf of the Child Support Agency	7	286	1,056
Balance as at 31 March 1996		<u>5,787</u>	<u>11,211</u>

The General Fund represents the value of assets employed by the Agency in its operating activities.

Note 11 – early retirement costs

a. The pension liabilities in respect of each employee are reviewed annually. The movements in the provision for 1995/96 are as follows:

	£'000
Balance as at 1 April 1995	284
Utilised in year	(100)
Increase in provision	319
Balance as at 31 March 1996	503
Payable within one year	168
Payable after one year	335

Prepayments at 31 March 1996 include £15,000 of annuities (1995: £ nil) to fund early retirement costs which will be paid in subsequent years.

This is the first year that early retirement costs have been accounted for in this fashion and therefore comparatives are not available this year.

b. The full cost of early retirement decisions taken in 1995/96 is estimated to be £65,000. Included in the charge to this year's Operating Account is the amount which will be funded by the Child Support Agency (£13,000) under the '80:20' arrangements (see note 4e). The remaining £52,000 will be met from the Civil Service Superannuation Vote and will be included as a notional cost in the years in which payments are made.

In addition, actual costs of £306,000 funded by the Child Support Agency and notional costs of £96,000 met from the Civil Service Superannuation Vote have been charged to this year's Operating Account in respect of early departure decisions made in 1994/95.

	1995/96 £'000	Future years £'000	Total £'000
Cost met by the Agency in respect of decisions made in 1995/96	13	0	13
Notional charges in respect of decisions made in 1995/96	1	51	52
Charges incurred in respect of decisions made in previous years	402	194	596
Operating Account	416	245	661

Statement of Agency's and Chief Executive's responsibilities

Under Section 5 of the Exchequer and Audit Departments Act 1921, the 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 the Accounts Direction in the Appendix to these accounts. The Administration 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 and cash flows for the financial year.

In preparing the accounts the Agency is required to:

- observe the Accounts Direction issued by the 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;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Accounting Officer for the Department of Social Security has appointed the Chief Executive of the Child Support Agency as the Accounting Officer for the Agency. Her relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which she is answerable and for keeping proper records, are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in Government Accounting (HMSO).



Date: 26 June 1996

Miss Ann Chant
Chief Executive

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

I certify that I have audited the financial statements on pages 36 to 51 under the Exchequer and Audit Departments Act 1921. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 40 and 41.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 33 the Agency and Chief Executive are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. It is my responsibility to form an independent opinion, based on my audit, on those statements and on the regularity of the financial transactions included in them and to report my opinion to you.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are 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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Note 8 – debtors (amounts due within one year)

	1996 £'000	1995 £'000
Trade debtors – fees	–	4,622
Government department debtors	187	71
Other debtors and prepayments	1,116	1,353
	<u>1,303</u>	<u>6,046</u>

Trade debtors – fees are shown net of a £12.4 million provision (see note 5).

Note 9 – cash in hand

	1996 £'000	1995 £'000
Cash in hand	<u>1</u>	<u>2</u>

In common with other DSS Agencies the CSA does not maintain its own bank account. Receipts and payments pass through an account held on behalf of the DSS by the Benefits Agency.

Note 10 – creditors (amounts falling due within one year)

	1996 £'000	1995 £'000
Trade creditors	1,253	1,694
Other creditors	923	680
Tax and Social Security	2,624	2,265
Accruals and deferred income	1,300	1,281
Early retirement provision (see note 11)	168	26
	<u>6,268</u>	<u>5,946</u>

Note 6 – interest on capital

In accordance with Treasury guidelines interest is charged on the basis of 6 per cent of the average cost of capital employed by the Agency. Capital employed is defined as total assets less current liabilities.

Note 7 – tangible fixed assets

	Fixtures & fittings £'000	IT equipment £'000	Office machinery £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 April 1995	9,503	3,021	2,881	956	16,361
Additions	1,595	161	311	99	2,166
Disposals	(79)	(11)	0	(291)	(381)
Revaluation	111	(123)	65	25	78
At 31 March 1996	11,130	3,048	3,257	789	18,224
Depreciation					
At 1 April 1995	2,656	777	531	564	4,528
Charge for year	933	615	377	237	2,162
Disposals	(7)	(2)	0	(87)	(96)
Backlog depreciation on revaluation	49	(3)	1	(2)	45
At 31 March 1996	3,631	1,387	909	712	6,639
Net book value					
31 March 1996	7,499	1,661	2,348	77	11,585
31 March 1995	6,847	2,244	2,350	* 392	11,833

Total additions in the year were £2.17 million (1994/95: £3.0 million). A further £3.6 million of expenditure on capital additions relating to land and buildings made on behalf of the DSS, is excluded from these accounts because the Property Repayment System is in operation (1994/95: £1.9 million) (see note 15c).

Motor vehicles, office machinery and information technology equipment used by the Agency costing £0.099 million, £0.078 million and £0.109 million respectively (1994/95 costing £0.094 million, £0.232 million and £0.73 million respectively) were purchased during the year by other Agencies. These assets are included in the CSA's balance sheet (see note 12a).

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Child Support Agency at 31 March 1996 and of the net cost of operations, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and directions made thereunder by Treasury;
- 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
28 June 1996

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

Annual accounts 1995/96

Operating account for the year ended 31 March 1996

	Notes	£'000	1995/96 £'000	1994/95 £'000
Turnover	3		4,063	9,269
Expenditure:				
Staff costs	4	114,078		107,244
Other operating costs	5	88,704		93,601
Total operating costs for the year			202,782	200,845
			198,719	191,576
Other income			1	1
Net cost of operations before interest on capital			198,718	191,575
Interest on capital	6		550	818
Net cost of operations			199,268	192,393

The net cost of operations arises wholly from continuing operations.

The Notes on pages 40 to 51 form part of these accounts.

Note 5 – other operating costs

The operating deficit for the year is stated after charging:

	1995/96 £'000	1994/95 £'000
Accommodation	21,242	14,781
Information Technology	28,998	26,080
Consultancy and other staff costs	9,890	15,209
General expenses	17,316	25,835
Depreciation	2,162	1,996
Equipment hire and rental	346	252
Provision for bad debts	8,251	9,000
Compensation and other payments to clients	174	173
Audit fee	325	275
	88,704	93,601

Notional charges for the following services are included above without the transfer of cash:

	1995/96 £'000	1994/95 £'000
A notional charge for insurance based on commercial rates has been made to reflect the costs of such risks	226	221
The audit fee represents the cost of the audit of the annual accounts carried out by the Comptroller and Auditor General	325	275
Inter-agency charges reflect the value of work carried out by each DSS Agency and HQ on behalf of other DSS Agencies	12,206	21,156
Northern Ireland inter-departmental notional costs are incurred for which no actual payment is made by the Agency (see note 1.4)	69	83

A provision for bad debts against fees of £12.4 million (1994/95: £9 million) has been made in order to allow for the potential non-payment of fees (see note 8).

The movements on the provision for 1995/96 are as follows:

	£'000
Balance as at 1 April 1995	9,000
Written off in the year	(4,814)
Increase in the provision	8,251
Balance as at 31 March 1996	12,437

Statement of total recognised gains and losses for the year ended 31 March 1996

(e) Early Retirement Scheme

For 1995/96, as in earlier years, the Agency continued to operate an Early Retirement Scheme giving benefits to certain qualifying employees. For employees who retired before 30 September 1994 the Agency bears the full cost of those benefits until those employees reach normal retirement age. The total cost is charged to the Operating Account and a provision for future pension payments is created. Payments to the retired employee until normal retiring age are then charged against the provision.

Under arrangements announced by the Treasury in November 1992, bodies may advance fund all or part of their liability for early retirement costs by making lump sum payments to the Paymaster General's Office. This advance funding is shown as a prepayment in the Balance Sheet.

The Civil Service White Paper, "Continuity and Change" (Cm 2627), published in July 1994, announced new arrangements for funding early departure costs of civil servants departing between 1 October 1994 and 31 March 1997. Under these arrangements 20 per cent of the cost will normally be borne by the Agencies and Departments and the remaining 80 per cent, which would otherwise fall upon the Department's running costs, will be met centrally from the Civil Service Superannuation Vote.

Government policy is to include the full cost of the Agency's activities in its accounts even where, as in this case, some of these costs are borne elsewhere in Government. Normal accounting practice, as applied to early retirement costs prior to 1 October 1994 (see above), is to provide for the full cost of early departure of employees in the year in which the early departure decision is made. However, for departures covered by the 80:20 arrangements, such treatment would not reflect the fact that 80 per cent of the cost will be borne by the Civil Service Superannuation Vote rather than the Agency. Consequently the Treasury has issued a direction that, whereas the 20 per cent element borne by the Agency should be charged to the Operating Account straight away and taken to a provision on the Balance Sheet, the annual payments from the Civil Service Superannuation Vote in respect of the 80 per cent element should be reflected (as notional costs) in the Agency's Operating Account when actually paid.

Details of the movement in the provision can be found in note 11.

	Notes	1995/96 £'000	1994/95 £'000
Net cost of operations for the financial year		199,268	192,393
Unrealised surplus on the revaluation of fixed assets	7	33	237
Total recognised losses relating to the year		199,235	192,156

The Notes on pages 40 to 51 form part of these accounts.

Balance sheet as at 31 March 1996

	Notes	£'000	1996 £'000	1995 £'000
Tangible fixed assets	7		11,585	11,833
Current assets				
Debtors	8	1,303		6,046
Cash in hand	9	1		2
		<u>1,304</u>		<u>6,048</u>
Current liabilities				
Creditors: amounts falling due within one year	10	(6,268)		(5,946)
Net current (liabilities)/assets			<u>(4,964)</u>	<u>102</u>
Total assets less current liabilities			<u>6,621</u>	<u>11,935</u>
Financed by:				
Provision for liabilities and charges due after one year	11		335	258
Capital and Reserves				
General Fund	12a		5,787	11,211
Revaluation Reserve	12b		<u>499</u>	<u>466</u>
			<u>6,621</u>	<u>11,935</u>

The accounts were approved by the Chief Executive on 26 June 1996



Miss Ann Chant
Chief Executive

The Notes on pages 40 to 51 form part of these accounts.

The remuneration of the Chief Executive and other Board Members during the year, excluding employer's pension contributions, was:

	1995/96 Number of staff	1994/95 Number of staff
£30,001–35,000	1	0
£35,001–40,000	1	1
£40,001–45,000	2	1
£45,001–50,000	0	2
£50,001–55,000	0	0
£60,001–65,000	1	0

One Executive Board Member included in the above analysis was not an employee of the Agency and received no remuneration in respect of pension contributions.

The aggregate cost of the Non Executive Board Members for 1995/96 was £5,000 (1994/95: £ nil). The Non Executive Board Members are not employees of the Agency.

The remuneration of higher paid employees, excluding Board Members, during the year, excluding employer's pension contributions, was:

	1995/96 Number of staff	1994/95 Number of staff
£30,001–35,000	21	24
£35,001–40,000	6	6
£40,001–45,000	2	1
£45,001–50,000	0	1
£50,001–55,000	1	0

(d) Superannuation scheme

The employees of the Child Support Agency are civil servants to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. The Agency staff are covered by the Principal Civil Service Pension Scheme which is a non-contributory scheme. The rate of the employer's contribution is determined from time to time by the Government Actuary and advised by the Treasury. For 1995/96 the rates were between 11 and 19.5 per cent depending on grade (1994/95: 13.5 per cent for all employees). The accounts reflect the actual cost of the employer's contributions.

Cash flow statement for the year ended 31 March 1996

Social Security costs comprise National Insurance Contributions, Statutory Sick Pay and Statutory Maternity Pay. Other pension costs relate to the superannuation scheme.

Notional charges for the following service are included above without the transfer of cash:

	1995/96 £'000	1994/95 £'000
The 80 per cent element of the early retirement costs for the year, which is borne centrally (see notes 4e and 11)	97	0

(b) The average monthly number of employees on the Agency payroll (excluding Northern Ireland) during the year was 7,622, analysed as follows:

	1995/96 Number of staff	1994/95 Number of staff
Senior Management	90	74
Executive	2,303	1,837
Administrative	5,229	4,022
	<u>7,622</u>	<u>5,933</u>

The average monthly number of employees on the Northern Ireland payroll during the year was 800 (1994/95: 732).

(c) Board members and higher paid employees

Total emoluments paid to Board Members during the year were:

	1995/96 £'000	1994/95 £'000
Salary	236	238
Fees	31	37
Employer's pension contribution	41	34
	<u>308</u>	<u>309</u>

The remuneration, including bonus and taxable benefits of the Chief Executive, who is an ordinary member of the Principal Civil Service Pension Scheme, was £62,223 (1994/95: £37,029 [for the seven months from 12 September 1994]).

	Notes	1995/96 £'000	1994/95 £'000
Net cash outflow from operating activities	15a	(178,306)	(162,647)
Investing activities:			
Cash payments to acquire fixed assets		(1,880)	(1,993)
Net cash outflow before financing		(180,186)	(164,640)
Financing:			
Net cash inflow from financing	15c	180,185	164,641
Net cash (out)/inflow after financing		(1)	1
(Decrease)/increase in cash and cash equivalents	15b	(1)	1

The Notes on pages 40 to 51 form part of these accounts.

Notes to the accounts

Note 1 – accounting policies

1.1 Accounting convention

The financial statements have been prepared under the historical cost convention modified by the inclusion of fixed assets at current cost. The Accounts Direction is reproduced in the Appendix at pages 63 to 66.

Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act and the accounting standards issued or adopted by the Accounting Standards Board so far as those requirements are appropriate.

1.2 Tangible fixed assets

Expenditure on office machinery with an individual cost of less than £1,000 is treated as an expense in the year in which it is incurred. All other items are treated as tangible fixed assets which are capitalised at their cost of acquisition. From 1 April 1995 all tangible fixed assets are revalued monthly using appropriate Central Statistical Office (CSO) indices. This is a change from valuing these assets at historical cost or by revaluing them using the retail price index (depending on the class of asset) which is intended to provide a better estimate of the replacement value of the assets.

1.3 Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life as follows:

Furniture and fittings	10 years
IT equipment	5 years
Office machines	5–10 years
Motor vehicles	3 years

Fixed assets are depreciated from the month following acquisition. Under Treasury requirements an additional charge is made for any backlog depreciation arising on revaluation. This charge ensures that assets which are revalued are fully written off within their estimated useful lives.

1.4 Northern Ireland CSA

The Agency's Belfast centre is housed in Great Northern Tower along with the Northern Ireland CSA. All staff working in the Agency's Belfast centre are employees of the Department of Health and Social Security 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 account along with inter-departmental notional charges for which no actual payment is made by the Agency (see note 5). These accounts also include the Agency's proportion of fixed assets which are in shared use and owned jointly with Northern Ireland CSA. The whole value of fixed assets used and owned exclusively by the Agency, in its Belfast centre, is also included in these accounts.

1.5 Land and buildings

The Agency does not own any freehold or leasehold land or buildings. All properties occupied by the Agency are part of the Common User Estate managed by Property Holdings for which rental charges are paid.

1.6 Notional costs

In accordance with the Treasury Guide to Fees and Charges notional costs at the appropriate rate are included for interest on capital employed, for insurance, for the 80 per cent element of early retirement costs borne centrally and for the audit fee. Amounts are also included for services provided by other DSS Agencies and HQ.

Note 2 – financial targets

The Child Support Agency was set the high level performance target of managing the Agency's resources so as to deliver agreed services within the approved 1995/96 Vote running cost and capital allocations. This target was achieved.

Note 3 – turnover

The Agency operates in two principal areas of activity; the assessment and the collection of maintenance. The turnover figure consists of fees invoiced for the provision of services in the period and also for fees due in prior periods but not yet invoiced.

Total fees are set by reference to the estimated costs of the Agency over its first five years of operations. Fees from clients are waived if, for example, they are in receipt of state benefits. Fees waived are excluded from the face of the Operating Account. Fees are levied on both absent parents and persons with care unless exemption criteria are met.

The charging of all fees was suspended for two years from 18 April 1995.

Note 4 – staff costs

(a) Total staff costs were:

		1995/96	1994/95
	£'000	£'000	£'000
Staff employed by CSA Great Britain:			
Wages and salaries	86,883		81,550
Social security costs	6,053		5,933
Other pension costs	10,052		9,359
Early retirement costs	416		284
		103,404	97,126
Staff employed at the Agency's Belfast centre (see note 1.4):			
Wages and salaries	9,102		8,669
Social security costs	593		596
Other pension costs	979		853
		10,674	10,118
		114,078	107,244