



Department  
for Work &  
Pensions

# Client Funds Account 2016/17

## 2012 Child Maintenance Scheme

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

Ordered by the House of Commons to be printed 14 December 2017

HC 610



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## **2 Client Funds Account 2016/17 2012 Child Maintenance Scheme**

# Foreword

The Department for Work and Pensions is responsible for the management of client funds relating to both the 2012 statutory child maintenance scheme operated by the Child Maintenance Service and 1993 and 2003 schemes operated by the Child Support Agency. These schemes support children by collecting money from the paying parent and paying these funds to the receiving parent.

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

The opinions for this account are given by the Comptroller and Auditor General in the audit certificate, with rationale for these opinions explained in his report. The Department has improved the accuracy with which it assesses child maintenance and for the first time since the introduction of the 2012 child maintenance scheme he has been able to issue an unmodified opinion on the regularity of the receipts and payments in the Account for 2016-17. His opinion on both the truth and fairness of the 'Outstanding Maintenance Arrears' note and on whether the account has been properly prepared are, as in previous years, unqualified.

**Robert Devereux**  
**Principal Accounting Officer**

**Date: 11 December 2017**

# Management commentary

# 1

## 1.1 Major reforms

The Department continues to make progress in delivering the Government's major reforms to child maintenance. Through the provision of more support for separated families to work together and reach family-based arrangements, and an efficient statutory child maintenance service with effective enforcement, for those that need it, the Department is determined to maximise the number of effective maintenance arrangements for children who live apart from one or both of their parents. An arrangement is regarded as effective where some of the agreed amount is regularly received either in cash or in kind and the receiving parent considers the arrangement is working.

Alongside these reforms, the Department is taking steps to improve prospects for Britain's most disadvantaged children and families in the interest of creating a stronger, fairer society that works for everyone. This work includes developing a new approach to improving children's outcomes by increasing access to support that addresses parental conflict. This is reflected in the latest evidence which shows that, whether between couples or between separated partners, children growing up with parents who have good-quality relationships, with low parental conflict, tend to enjoy a wider range of better future outcomes.<sup>1</sup>

The Child Maintenance Options service continues to help separated parents make informed choices about their child maintenance arrangements and supports parents to consider making family based arrangements.

Where parents are unable, or it is not appropriate, to come to their own family based arrangement, the 2012 scheme offers a simple assessment based primarily on a percentage of gross income, including income from property and savings, and benefits in payment. The system supporting the scheme retrieves this data automatically from HMRC and the Department's benefits systems to carry out the assessment making the process more efficient. In a small percentage of cases, where no data is available from HMRC, the paying parent is asked to provide written evidence of income. Once the assessment is made, it remains in place until the case is due for annual review unless income changes by more than 25%, reducing administrative effort and providing greater stability for the receiving parent.

Where no income data is provided we are able to impose a default maintenance decision, this is reviewed quarterly to see if better income information is available.

Application fees and charges for collection and enforcement actions were introduced in 2014. These form part of a package of incentives to encourage parental collaboration where possible, better compliance among non-resident parents, and to reduce costs for the taxpayer.

<sup>1</sup> <https://www.gov.uk/government/consultations/strengthening-families-promoting-parental-responsibility-the-future-of-child-maintenance>

From 30 June 2014, a £20 application fee was introduced for the parent applying to the 2012 Scheme (with the exception of cases where the applicant is: under 19 years of age, a resident in Northern Ireland, or they are or have been a victim of domestic violence). Charging for new enforcement action was also introduced.

From 11 August 2014, all 2012 Scheme clients who use the Collect & Pay service pay collection fees. Collection fees are not charged if parents choose to set up a family-based arrangement or pay by Direct Pay. Fees within the Collect & Pay service add 20% to each of the paying parents' usual child maintenance amounts and deduct 4% from each payment made to the receiving parent.

The introduction of charging for our services aims to encourage clients to make an active choice about their child maintenance arrangements rather than automatically default to the statutory service. The intention is that only those clients who are unable to reach a family-based arrangement or where the paying parent has failed to pay using Direct Pay turn to the Collect & Pay statutory service.

Once parents have made an application to the 2012 scheme, both parents can usually avoid on-going collection charges entirely by using the Direct Pay service, where parents organise payments between themselves based upon a Child Maintenance Service calculation. This can be a step towards a more collaborative relationship.

Where parents are unable or unwilling to collaborate they can use the Collect and Pay Service, though collection charges will then apply.

The other key element to the child maintenance reforms is the closure of Child Support Agency 1993 and 2003 scheme cases. Cases with an on-going liability on these schemes are being selected systematically for closure. Once selected, parents are given six months' notice in writing of the date on which their existing CSA liability will end and are advised to contact the CM Options service to discuss their future maintenance arrangements, which could be an application to the CMS or a Family Based Arrangement.

By being given the opportunity to look at their child maintenance arrangements again, many parents will decide they do not need state intervention, leaving the 2012 scheme with a reduced caseload that can be run more effectively, ensuring more money for more children, while also reducing costs for the taxpayer.

## 1.2 Performance during 2016/17

The caseload at 31 March 2017 was 322,800, this includes both Collect and Pay and Direct Pay. This is an increase of 112,200 (35%) since 31 March 2016 and is partly driven by cases that close on the old CSA schemes which then make applications to CMS. Of the Collect and Pay caseload, 59% of case groups were contributing towards their current liability, this is the highest compliance level recorded since the 2012 Scheme began.

At March 2017, based on surveys, we estimated that 51,400 effective family-based arrangements were in place following contact with Child Maintenance Options.

In the last year, the Department estimates that £422 million (2015/16 £232 million) was paid between parents, 2015/16 figures have been restated to include voluntary payments where a payment is made directly to the receiving parent by the paying parent. This estimate assumes that Direct Pay payments due are paid in full and on time by the paying parent.

- £359.7m through Direct Pay (2015/16, £193.3m) and,
- £62.4m through Collect and Pay (2015/16, £38.4m).



## 6 Client Funds Account 2016/17 2012 Child Maintenance Scheme

Since the introduction of the Child Maintenance Service in 2012 the Department estimates that £770 million has been paid between parents.

### 1.3 Direct Pay

While payments made through Direct Pay do not flow through the Client Funds Bank Account they are a key part of the reforms. At 31 March 2017, 70 per cent of those parents due to pay their liability as assessed by the CMS were using Direct Pay rather than the collection service.

Where payments due under Direct Pay are reported as missed, both clients are asked to provide evidence of the missed payment to the CMS. In cases where it is deemed the paying parent is unlikely to pay, the case may be changed to Collect and Pay where enforcement tools are available to re-establish compliance and recover any outstanding unpaid maintenance; including any accumulated while the case was classed as Direct Pay.

### 1.4 Collect and Pay

#### 1.4.1 Receipts of child maintenance from Paying Parents

During 2016/17, 0.7 million (2015/16, 0.4 million) individual receipts were received totalling £53.9 million (2015/16, £31.3 million), all of these receipts were received electronically.

#### 1.4.2 Payments of child maintenance to Receiving Parents

During 2016/17, 0.7 million (2015/16, 0.4 million) individual payments were made to receiving parents with a total value of £51.0 million (2015/16, £29.0 million). Every payment is made by funds transferred electronically to clients' bank accounts.

Funds paid out were less than those received. Maintenance monies received are paid to receiving parents as quickly as possible subject to normal banking clearance cycles if a method of payment has been supplied by the receiving parent, but there are occasions where funds are pending allocation to a case. This led to the Child Maintenance Service holding a cash balance at 31 March 2017 of £4.7 million, equating to 7 per cent of the funds received during the year (31 March 2016, £2.7 million, 7 per cent).

#### 1.4.3 Unpaid Maintenance

In addition to reporting the receipts and payments of maintenance monies, the Department is required to report on the value of child maintenance outstanding from paying parents.

The amount reported as being owed by paying parents to receiving parents is £113.8 million at 31 March 2017 (March 16, £55.8 million).

The client base of the 2012 scheme differs fundamentally from that of previous schemes with more compliant customers choosing to enter into a family based arrangement or avoid charges through Direct Pay. In spite of this, at 31<sup>st</sup> March 2017, 54%<sup>2</sup> of the cumulative liability raised had been paid by paying parents, comparing favourably with the 1993 and 2003 Schemes of 34% and 39% respectively.

<sup>2</sup> 2012 statutory child maintenance scheme: Aug 2013 to Mar 2017 (experimental) - GOV.UK

#### 1.4.4 Statutory Child Maintenance Scheme costs, fees and charges

Non-child maintenance receipts of £14.7 million collected during 2016/17 (2015/16, £8.5 million) related mainly to application fees and collection and enforcement charges which are paid to the Secretary of State. The administrative cost of the CMS in collecting these fees is reported as part of the Child Maintenance Group costs within the Department for Work and Pensions Resource Accounts.

#### 1.4.5 Collectability

In reporting periods up to and including the year ended 31 March 2016, all outstanding unpaid maintenance had been reported as collectable. The Department commissioned a review of collectability during 2016/17 from Indesser, a private business, jointly owned by the government and TDX Group, who use data and insight to understand our clients and determine appropriate collection activity. Indesser analysed the circumstances of over 32,000 clients who had accumulated levels of unpaid maintenance that exceeded £1,000 and concluded that, at the point of analysis, around one third of the clients were in financial difficulty or did not have a residential address.

Despite this, DWP still considers that all arrears are probably collectable at March 2017. The DWP issued a consultation document on the 14 December 2017<sup>3</sup> where comments have been invited on increasing the collection powers to address non-payments for those clients who are evading maintenance payments. DWP will look again at the collectability position in 2018.

### 1.5 Assessment accuracy

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

With the 2012 scheme, the Department has simplified the way it administers child maintenance. For example, it has simplified the calculation and significantly reduced the number of procedures and manual interventions involved in its administration, and built direct interfaces with HMRC and the Department's benefit systems to establish parental income and increase automation of the maintenance calculation.

This increased automation was expected to have a positive impact on assessment accuracy and extensive work has been carried out during this financial year to identify and quantify this impact.

The Department's Quality Assurance Team has reported that the automated calculations they checked were free from error for both the initial calculation and annual review of maintenance assessments, this is where each case is updated after 12 months with the latest gross income and is usually sourced automatically from HMRC. This fact, coupled with work done to identify volumes of these transactions has enabled the manual accuracy rate to be uplifted to reflect automation and for the year to 31 March 2017, this reported accuracy was 99.1% (15/16, 98.1%).

**Robert Devereux**  
Principal Accounting Officer

**Date: 11 December 2017**

<sup>3</sup> <http://www.gov.uk/government/consultations/child-maintenance-a-new-compliance-and-arrears-strategy>

# Statement of Accounting Officer's responsibilities

# 2

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

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

In preparing the accounts, the Accounting Officer is required to:

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

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

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

**Robert Devereux**  
Principal Accounting Officer

**Date: 11 December 2017**

# Governance Statement

# 3

## 1 Introduction

The Department for Work and Pensions has responsibility for the management of client funds relating to the 2012 statutory child maintenance scheme. The Department operates the 2012 scheme through the Child Maintenance Service (CMS), part of the Child Maintenance Group.

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

The governance arrangements set out in the Departmental Resource Account for year ended 31 March 2017 relate to the Child Maintenance Group as part of the Department. This statement covers topics which are specific to the CMS operating within the Department.

In December 2012, the Department launched the 2012 statutory child maintenance scheme, delivered by the CMS. Cases on the existing 1993 and 2003 schemes are being gradually closed, requiring parents to choose between making their own, family-based arrangement or making an application to the CMS, where a family-based arrangement is not possible. Although outstanding arrears balances on some cases have moved from 1993 and 2003 computer systems to the CMS 2012 computer system, these arrears continue to relate to, and will be reported in, the Client Funds Account for the 1993 and 2003 schemes.

## 2 Control challenges: 2012 Scheme

The 2012 Scheme is facing a small number of control challenges.

### 2.1 Changes to Banking Arrangements

During this financial year a cross government procurement exercise led to a change in our sponsoring bank. As a result, the number of bank accounts in operation doubled and some additional work was needed to integrate the new supplier's systems with ours. This transition has now been successfully completed and we are looking to decommission the old bank accounts in the next reporting year.

### 2.2 System and Process Improvements

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

Caseworkers are continually being upskilled in CMS casework as the CSA scheme diminishes and caseload on the CMS scheme grows and a training programme targeted at improving the financial

## 10 Client Funds Account 2016/17 2012 Child Maintenance Scheme

understanding of caseworkers is being rolled out which will contribute to improvements in the quality of caseworker actions.

### 2.3 Assessment Accuracy

Assessment accuracy for 16/17 is 99.1% (15/16, 98.1%). The improvement is due to a number of factors including an increase in the volume of automated transactions as well as system and process improvements mentioned above.

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

Increasing availability of Management Information will also contribute to improving accuracy through increased transparency of the CMS 2012 system.

CMG Operations has implemented targeted checking regimes which have been developed using this improved Management Information to identify emerging trends, allowing greater focus on getting things right first time for the customer. New and improved training materials have been developed and work is also being done to embed a culture of continuous improvement.

The combined impact of the increasing proportion of fully automated, accurate transactions, coupled with an operational focus on manual accuracy, is expected to deliver long term and sustainable improvements in the accuracy of maintenance assessments.

### 2.4 Information Security

This control challenge is to protect the growing amount of sensitive personal data necessary to assess and pay child maintenance while at the same time making efficient use of that data. The Department's information security risk appetite formally remains low.

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

### 2.5 Management Information

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

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

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

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

In addition to the published statistics, the Department uses a wide range of management information (MI) to control the processing of applications, changes of circumstances and other business activities. The MI that we have has enabled us to stay in control of work intake, avoid backlogs and deliver agreed levels of service. The focus in the coming year is to improve MI on arrears and enforcement activity.

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

# 4

I certify that I have audited the Client Funds 2012 scheme Account for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Receipts and Payments Statement, the Statement of Balances and the related notes. This account has been prepared in the form directed by Her Majesty's (HM) Treasury. These financial statements have been prepared under the accounting policies set out within them, namely:

Note 5, detailing outstanding maintenance arrears, which has been prepared on an accruals basis; and all other sections of the financial statements, which are prepared on a cash basis.

## Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer of the Department for Work and Pensions (DWP) is responsible for the preparation of the Client Funds 2012 scheme Account in accordance with the HM Treasury Direction.

My responsibility is to audit the account in accordance with the Government Resources and Accounts Act 2000 and I provide three opinions on the financial statements:

- On note 5, 'Outstanding Maintenance Arrears', I provide an opinion as to whether the note gives a true and fair view of the outstanding maintenance balances;
- On all sections other than note 5 'Outstanding Maintenance Arrears', I provide an opinion as to whether the account properly presents the receipts and payments of the Client Funds 2012 scheme Account and the cash balances held and that the account has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions thereunder; and
- For all sections of the financial statements, I provide an opinion as to whether in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

I conduct my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the account sufficient to give reasonable assurance that the account is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Client Funds 2012 scheme Account and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the DWP in respect of the account; and the overall presentation of the account.

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

## Opinions

### **Note 5: 'Outstanding Maintenance Arrears'**

#### ***Unqualified true and fair opinion on the outstanding maintenance balances***

In my opinion, Note 5 to the account gives a true and fair view of the outstanding maintenance arrears as at 31 March 2017.

### **All sections other than note 5, 'Outstanding Maintenance Arrears'**

#### ***Unqualified opinion on the Receipts and Payments Statement***

In my opinion:

- The account properly presents the receipts and payments of the Client Funds 2012 scheme Account for the year ended 31 March 2017 and the cash balances held as at 31 March 2017; and
- The account has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions thereunder.

#### ***Unqualified opinion on regularity***

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

## Matters on which I report by exception

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

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

Further details of why I have been able to issue an unqualified opinion on the regularity of receipts and payments are provided in my report on pages 14 to 17.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria, London, SW1W 9SP

**Date: 13 December, 2017**



# Report by the Comptroller and Auditor General to the House of Commons

# 5

## Introduction

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

**2** This report relates specifically to the Client Funds 2012 scheme Account (the Account) and considers the Department's management of the scheme. I have produced a separate report on the Client Funds 1993 and 2003 schemes Account (HC609).

## Key findings

**3 The Department for Work and Pensions (the Department) has improved the accuracy with which it assesses child maintenance due under the 2012 child maintenance scheme.** Improving accuracy rates is important as inaccuracy in child maintenance calculations can have a negative impact on parents and children; inaccuracies can result in receiving parents getting too little or paying parents paying too much.

**4 For the first time since the introduction of the 2012 child maintenance scheme, I have been able to issue an unmodified opinion on the regularity of the receipts and payments recorded in the Account for 2016-17.** Where assessment calculations are accurate, the associated receipts and payments conform to scheme rules and are regular. I have estimated the level of inaccurate receipts and payments made during the year to be £0.5 million, 0.88% of total receipts. I do not consider this level of inaccurate receipts and payments to be material to the Account.

**5 Arrears representing unpaid maintenance on 2012 child maintenance scheme cases are increasing.** The 2016-17 arrears balance in the Account is £113.8 million, an increase from £55.8 million in 2015-16. Although I am satisfied that the arrears recorded are materially accurate – unlike those arising on the 1993 and 2003 schemes – it is vital that the Department takes timely action to collect arrears due or to write off where appropriate, to avoid mounting arrears that will prove as uncollectable and unmanageable as those on the 1993 and 2003 schemes.

**6 The Department expects accuracy to improve further as it increases the proportion of child maintenance assessment calculations that are automated.** While there remains a risk that the error rate in manual calculations fluctuates between financial years, the Department is confident procedures to

tackle the areas most susceptible to error will ensure the overall improvement in accuracy is sustained. One of the principal reasons for the improved rate of accuracy is the increase in the proportion of child maintenance calculations being automated, from an estimated 43.6% in 2015-16 to 73.7% in 2016-17. This proportional rate is expected to increase further in the future as 1993 and 2003 scheme case closure nears an end.

## Recommendations

**7** When errors are made in child maintenance assessments or when parents do not pay the maintenance that is due, children can lose out. I will continue to monitor accuracy rates through my financial audit, and report if the Department does not maintain accuracy levels or allows arrears to rise. The Department intends to identify further opportunities where automated assessment calculations can be used in the 2012 child maintenance scheme, both enhancing accuracy and reducing the need for manual interventions.

**8** I recommend that the Department takes prompt action to address the growing levels of arrears to ensure that the issues with collectability and manageability of arrears arising on the 1993 and 2003 schemes are not repeated.

## Unqualified opinion on regularity of Receipts and Payments

**1.1** As the independent external auditor, I am required to give an opinion on whether, in all material respects, the Account properly presents receipts and payments for the year ended 31 March 2017 and whether these transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them (the 'regularity' opinion).

**1.2** The Department is required to adhere to specific legislative requirements of the Child Support Maintenance Calculation Regulations (2012) when determining maintenance assessments and has no authority to exercise latitude. When an assessment is made that is not in accordance with these legislative requirements, the associated receipts and payments are incorrect and irregular.

**1.3** Since 2014-15, the Department has produced the Account separately from the Client Funds 1993 and 2003 schemes Account, and has properly presented the amount of child maintenance received and paid in year. However I have each year qualified my regularity opinion on the grounds of material errors in the calculations of maintenance assessments. Errors result in assessments that are not in accordance with the legislation and are therefore irregular.

**1.4** For the first time, in 2016-17, I have concluded that the level of error in child maintenance 2012 scheme receipts and payments is not material to the Account. The Department has improved the accuracy of assessments following significant work to expand its automation of child maintenance calculations and subsequent revisions arising from changes of circumstance. It has also taken steps to address the root cause of manual case worker error.

### Estimating accuracy in child maintenance assessment calculations

**1.5** The Department's Quality and Assurance Team (QAT) carries out extensive checking of maintenance assessments each year. These checks cover both new applications for child maintenance and cases where there has been a recalculation owing to a change in circumstance. I have reviewed the findings of the QAT to estimate a gross error rate in maintenance assessments of 0.88% (2015-16 2.17%).

**1.6** In 2016-17, the Department received £53.9 million (2015-16: £31.3million) of Child Maintenance receipts. I have estimated that errors in assessments result in overpayments of child maintenance amounting to £0.2 million (0.40% of receipts) and underpayments totalling £0.3 million (0.48% of receipts). In 2015-16 I estimated that errors in assessments resulted in overpayments of child maintenance amounting to £0.4 million (0.70% of receipts) and underpayments totalling £0.6 million (1.47% of receipts).

### **How the Department has improved accuracy rates**

**1.7** In order to reduce the level of error to below material levels, the Department has increased the proportion of decisions that are calculated through an automated process and it has demonstrated that such automated decisions are accurate. This includes automated interfaces with HMRC and DWP systems that mean many calculations are performed with no case worker intervention. 560,000 calculations were made automatically, some 74% of all calculations. This compares to 44% of all calculations in 2015-16. The Department has been able to demonstrate to me that automated calculations are free from error.

**1.8** Combined with the significant progress made on automation, the Department continues to carry out specific work on manual caseworker calculations. Throughout 2016-17, the Department has been carrying out work to embed a continuous improvement culture within the organisation. The Department's leadership team meet fortnightly to review data from the previous two weeks, they discuss the impact on reported accuracy performance and review cases to understand where and why errors occur, to apply learning and reduce future errors.

### **The impact of incorrect assessments on the arrears balance**

**1.9** Where a non-resident parent does not make payments in accordance with their child maintenance assessment, the Department records any shortfall in the outstanding maintenance arrears balance reported in Note 5 of the Account. At 31 March 2017, the arrears balance relating to the 2012 scheme was £113.8 million (2015-16: £55.8 million).

**1.10** I consider that the net impact of incorrect assessments on the arrears balance, as disclosed in note 5, is not material, and so I have not qualified my opinion on the truth and fairness of this balance. I estimate that the net misstatement on the arrears balance due to incorrect assessments is £0.3 million (0.2%) This comprises a £0.9 million (0.8%) understatement and £0.7 million (0.6%) overstatement of the arrears balance.

## **Future developments**

### **Automated maintenance assessments under the 2012 scheme**

**1.11** As noted above, a greater proportion of child maintenance calculations is now automated. These automated calculations, which the Department has demonstrated were accurate during 2016-17, are likely to cover a greater proportion of maintenance calculations in the future. As 1993 and 2003 scheme case closure nears an end, the Department expects fewer new child maintenance cases under the 2012 scheme and a greater proportion of decisions made to be renewals and changes of circumstance. Automation of maintenance calculations is much more prevalent in renewal decisions than with new cases. The impact of a greater volume of automated calculations should lead to continued improvements in the overall accuracy rate of child maintenance assessment calculations.

### **Improving manual calculation accuracy rates**

**1.12** The Department recognises that the biggest challenge in sustaining accuracy is in decision makers calculating manual maintenance assessments correctly, and sees the sustained accuracy of manual maintenance assessments in the 2012 scheme as a priority. Ensuring manual case worker decisions are accurate is crucial in providing an acceptable level of service to parents. There is a risk that the error rate in manual calculations could grow, leading to a material cumulative error rate in child maintenance assessments in future.

**1.13** To address this challenge, the Department has invested significant time and effort in implementing a checking strategy. The main focus of this is providing root cause analysis and this is carried out alongside the work of the Quality Assurance Team. Where errors are identified in the manual population, the Department carries out work to understand the reasons behind such errors. It then moves resource in the business to improve procedures, decision maker instructions and if necessary implements additional training to ensure these errors do not occur in the future.

**Sir Amyas C E Morse**

**Comptroller and Auditor General**

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SW1W 9SP

**Date: 13 December, 2017**

# Receipts and Payments Statement for the year ended 31 March 2017

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	Notes	2016/17 £000s	2015/16 £000s
<b>Receipts:</b>			
Child Maintenance from paying parents	2	53,930	31,333
Fees, charges and other recoveries collected on behalf of the Secretary of State	2	14,782	8,544
Receipts pending allocation	2	599	58
Bank Interest	3	-	-
<b>Total Receipts</b>		<b>69,311</b>	<b>39,935</b>
<b>Payments:</b>			
To receiving parents	2	51,044	28,960
Refunds to paying parents/employers	2	1,478	923
Fees, charges and other recoveries collected on behalf of the Secretary of State	2	14,782	8,544
<b>Total Payments</b>		<b>67,304</b>	<b>38,427</b>
Net receipts/(payments)		2,007	1,508
Balance as at 1 April		2,688	1,180
<b>Balance as at 31 March</b>		<b>4,695</b>	<b>2,688</b>

# Statement of Balances as at 31 March 2017

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	Notes	31 March 2017 £000s	31 March 2016 £000s
Opening balance		2,688	1,180
Movement		2,007	1,508
Closing cash balance	4	<u>4,695</u>	<u>2,688</u>

# Notes to the account for the year ended 31 March 2017

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## 1 Statement of accounting policies

The account has been prepared on a cash basis and in the form directed by HM Treasury. The maintenance owed by non-resident parents as at 31 March 2017, along with movements in these arrears balances during the financial year.

The account has been prepared under the historic cost convention.

## 2 Receipts and payments

Receipts from clients relate to child maintenance and also application fees and charges collected from paying and receiving parents using the Collect and Pay Service. Recoveries are also obtained from paying parents in respect of DNA and court costs

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

Some receipts have been received in the bank account but have not yet been allocated; this can be due to normal timing differences or incorrect reference numbers being quoted by clients.

Payments made to the Department also include payments relevant to the Department for Social Development in Northern Ireland to fund payments made on behalf of the Department for Work and Pensions.

In addition to payments of child maintenance, refunds and reimbursements are made to non-resident parents and employers for overpayments of maintenance and any costs recovered from paying parents and income from fees and charges are paid to the Department.

The increase in receipts is due to cases from the Child Support Agency Legacy Schemes re-applying to the CMS Scheme, as well as increasing volumes of completely new applications.

## 3 Interest received and paid

Prior to the cross government procurement exercise which led to a change in our sponsoring bank, the Department received interest on balances deposited in the Client Funds bank account, at the Bank of England base rate minus 1 per cent. Since the base rate was 0.5 per cent during the period, the effective rate was 0 per cent. These new bank accounts are no longer interest bearing.

As a consequence, no interest was received in 2016/17 (2015/16, £nil).

## 4 Statement of balances

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

## 5 Movements in unpaid maintenance

The following note explains movements between the opening and closing unpaid maintenance balances:

- i) Maintenance charged during the year and other adjustments. This comprises: assessments made on paying parents during the year; outstanding maintenance arrears transferred to and from the Department for Social Development in Northern Ireland, and adjustments arising from cancelled or terminated assessments; or where the liability has been reduced, for example, as a result of a direct payment between parties being offset against the maintenance due. Once the initial calculation is provided to clients, they are given an opportunity to review and confirm details before a payment schedule is issued. This necessary delay means that some arrears have accumulated before the payment plan is in place.
- ii) Amounts written off. Child Maintenance Group has continued to make use of write off powers introduced as part of Write off and Part Payment legislation introduced in 2010. The regulations allow part payment of child maintenance arrears to be accepted in full and final satisfaction with the agreement of the receiving parent. The regulations also allow child maintenance arrears to be written off in certain explicit circumstances for example where the receiving parent tells us that they do not want the arrears to be collected or the paying parent has died. If a paying parent dies and there are arrears of child maintenance outstanding, the Child Maintenance Group (CMG) can make a claim for those arrears against the estate of a deceased paying parent, where it is appropriate to do so.
- iii) Maintenance received during the year from paying parents. When a receipt is allocated to a case by the CMS 2012 system, the receipt reduces the outstanding liability of the paying parent immediately but does not pay out to the receiving parent until funds are cleared. Times vary depending on the method of payment and its associated clearance cycle. The total value of maintenance receipts allocated to cases in 2016/17 was £53.6 million (2015/16, £30.1 million). The principal difference between the value of the receipts in the Receipts and Payments Statement (2016/17, £69.3 million) (2015/16, £39.9 million) and those reported in Note 5 is due to the inclusion of non-child maintenance receipts, mainly fees and charges in the Receipts and Payments Statement.
- iv) Outstanding maintenance arrears as at 31 March 2017. This is the balance of outstanding maintenance arrears recognised by the Department, after allowing for maintenance assessments in the year and after receipts of maintenance have been deducted.

	Notes	2016/17 £000s	2015/16 £000s
Outstanding maintenance arrears at start of year		55,811	25,949
Maintenance charged in year and other adjustments	5.0 i)	113,606	62,362
Amounts written-off	5.0 ii)	(1,986)	(2,376)
Maintenance received in year	5.0 iii)	(53,648)	(30,124)
Outstanding maintenance arrears at year end	5.0 iv)	<b>113,783</b>	<b>55,811</b>



## **6 Events after the reporting date**

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

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