



Department
for Work &
Pensions

Client Funds Account 2016/17

1993 and 2003 Child Maintenance
Schemes

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

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

HC 609





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2 Client Funds Account 2016/17 1993 and 2003 Child Maintenance Schemes

Foreword

The Department for Work and Pensions is responsible for the management of client funds for Child Maintenance in Great Britain managed by both the Child Support Agency 1993 and 2003 statutory child maintenance schemes and the Child Maintenance Service 2012 Scheme. These schemes support children by collecting funds from non-resident parents and paying these funds to parents with care. In some 1993 and 2003 scheme cases, where parents with care have received benefits before 2008, the funds are paid to the Secretary of State.

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

The opinions for this account are given by the Comptroller and Auditor General in the audit certificate, with the rationale for these opinions explained in his report. The Comptroller and Auditor General has provided an unqualified opinion that receipts and payments are properly presented, but he has repeated modified opinions on other aspects from previous years, both of which relate to the historic issues with the 1993 and 2003 statutory schemes.

The first, is a qualified opinion on the regularity of receipts and payments, because the assessment of some of the amounts due to be paid are incorrect. The second is an adverse opinion on arrears, because the accumulated arrears owed by some non-resident parents are misstated reflecting inaccurate assessments and incorrect processing since the inception of the statutory schemes.

Given the limited future life of the 1993 and 2003 systems, the use of public money to make a material difference to these issues could not be justified. While there will be a review of arrears balances during the case closure process, the Department is not intending to carry out a wholesale review and re-calculation of these balances.

To strategically address these historic failings the 2012 scheme was introduced, underpinned by a completely new IT system. Since 25 November 2013, all new applications for child maintenance have gone to the 2012 Scheme. We continue the process of closing all existing cases held on the 1993 and 2003 systems, whilst being supportive and encouraging parents to make their own family-based arrangements. Where this is not possible they can make a new application to the 2012 scheme via a conversation with Child Maintenance Options.

Arrears arising from cases on the 1993 and 2003 schemes, which have been transferred to the 2012 computer system, are still particular to the 1993 and 2003 schemes and are reported in this publication. The Department launched a consultation document on 14th December 2017 looking at how to handle the historic arrears.

Robert Devereux
Principal Accounting Officer

Date: 11 December 2017

Management commentary

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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.¹

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, they can apply to the Child Maintenance Service 2012 scheme, further details about the scheme can be found in the Client Funds Account for the 2012 scheme.

Another key element to the child maintenance reforms is the closure of existing Child Support Agency 1993 and 2003 scheme cases, which will affect 1.3m cases in total, around 800,000 of which have an on-going liability and around 500,000 cases have only arrears outstanding. Arrears balances on 1993 and 2003 scheme cases will automatically transfer to the 2012 computer system to allow the 1993 and 2003 scheme IT systems to be decommissioned. All existing 1993 and 2003 clients will be given the opportunity to re-apply to the 2012 scheme or to make a family based arrangement. We continue to make good progress on the closure of CSA cases. By March 2017 741,000 cases were selected for case closure, of which 622,000 cases had reached the stage where the on-going liability under the 1993 or 2003 scheme has ceased.

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

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.

Finally, the Department is now considering the most appropriate way to tackle the longstanding historic arrears. We are consulting on new powers to write off a significant proportion of the historic arrears, further details on the proposal can be found in the consultation document.²

1.2 Performance during 2016/17

The live 1993 and 2003 scheme caseload, which is any case with a current liability and/or arrears, was at 965,200 by the end of March 2017 (1,220,500 at 31 March 2016). The number of 1993 and 2003 scheme cases with a current liability (i.e. excluding those cases with arrears only) reduced to 138,500 (411,800 at 31 March 2016), whilst the percentage of cases contributing to their current liability decreased to 90.2 per cent by the end of March 2017 (92.1 per cent at 31 March 2016).

The number of children benefiting from maintenance through the 1993 and 2003 schemes in the quarter to 31 March 2017 was 167,200 a reduction of 350,200 since 31 March 2016, which is directly attributable to the continuation of the programme to close all cases on the 1993 and 2003 systems. The amount of maintenance collected or arranged over the year through the 1993 and 2003 schemes was £569.7 million, of which £81.9 million was arrears (down from £999.5 million collected and arranged, of which £106.7 million was arrears in the 12 months to 31 March 2016).

1.3 Receipts of Child Maintenance

During 2016/17, 2.3 million individual receipts were recorded, a 36 per cent decrease in volume (2015/16: 3.7m). Total monies received were 36 per cent lower at £409 million (2015/16: £638 million). Of these, 96 per cent of receipts by volume (2015/16: 96 per cent) and 95 per cent by value (2015/16: 94 per cent) were received electronically, excluding receipts received in the 1993 and 2003 scheme bank for cases which have now transferred to CMS 2012.

By value, 67 per cent of receipts from non-resident parents were paid using the following methods via the collection service: direct debit, deduction from earnings orders via employers and payment by debit or credit card. This has remained static from 2015/16 by value and has decreased by 6 per cent by volume. Within the collection service, direct debit and deduction from earnings orders result in the highest levels of compliance. Collection by debit or credit card is particularly effective for one-off payment of arrears.

A further 20 per cent of receipts were executed under the Faster Payments system (2015/16: 22 per cent), introduced by the major UK clearing banks. Faster Payments has significantly reduced the timescales for receipts from non-resident parents and has the additional benefit of ensuring cleared funds are received promptly. Receipt failure rates remain low overall, except for direct debits, where 5 per cent of receipts failed (2015/16: 2 per cent). More than 99 per cent of these failures are initiated by non-resident parents, the most common reasons being the cancellation of a direct debit instruction or insufficient funds in the paying account.

² www.gov.uk/government/consultations/child-maintenance-a-new-compliance-and-arrears-strategy

1.4 Payments of Child Maintenance

During 2016/17 the number of individual payments to parents with care decreased by 45 per cent to 3.7 million, representing a decrease in volume of 3.1 million transactions, whilst the total value of payments at £417 million reduced by 35 per cent, consistent with overall receipts. 100 per cent of payments to clients by value and volume are made by funds transferred electronically directly to clients' bank accounts.

Volumes of payments can vary considerably to receipts as one receipt from a non-resident parent can be allocated to multiple parents with care. Similarly, one receipt from an employer through a deduction of earnings order may relate to multiple non-resident parents, in which circumstances the single receipt will be allocated to a number of parents with care.

In 2016/17, more funds were paid out than were received due to prior year receipts paying out in this financial year. Total net payments to the Secretary of State fell by £1.4 million, or 11 per cent. Around £1 million per month relating to arrears continues to be paid to the Secretary of State. Only amounts relating to arrears are payable to the Secretary of State as the legislation linking maintenance to the benefit system was repealed in 2008. However, payments continue to be due to the Secretary of State as and when funds are received relating to on benefit periods prior to the repeal.

Maintenance monies received are paid to parents with care as quickly as possible, and cash held at 31 March 2017 equated to around 3 per cent (2015/16 3 per cent) of the funds received during the year. The Department's systems and policies do not support the use of Faster Payments as an outgoing payment on a routine basis.

There are a very small number of receipts which historically have been difficult to match to individual clients and cases, and consequently have not been paid to the relevant parent with care. Once all avenues to correctly assign a receipt to a non-resident parent have been exhausted, surpluses are transferred to HM Treasury. Despite the inherent challenge of translating 2.3 million receipts into 3.7 million payments – including many instances of subdividing or aggregating payments between or across multiple cases – the vast majority of payments are made accurately and in a timely manner, whether processed automatically or manually. During 2016/17 £0.02m in receipts were paid to HMT (2015/16: £0.04m).

1.5 Outstanding arrears of child maintenance

In addition to reporting the receipts and payments of maintenance monies, the Department is required to report on the value of outstanding child maintenance arrears, covering the 1993 and 2003 schemes.

Outstanding child maintenance arrears totalled £3,745 million at 31 March 2017 (a decrease of £231 million on 1993 and 2003 scheme arrears at 31 March 2016 of £3,976 million), and were owed by non-resident parents to their respective parent with care and to the Secretary of State. The Department is responsible for pursuing their collection. The £3,745 million arrears owing have accumulated over the last 24 years. As part of a new Compliance and Arrears strategy, the Department is now formally consulting on new powers to write off a significant proportion of the historic arrears.

1.6 Collectability

Under the new accounts direction, CMG no longer has the requirement to report an analysis of the collectability of the arrears balance in the notes to the account.

However, the Department continues to consider this a meaningful measure and will continue to publish an annual estimate in the Client Funds Account to establish the three categories of collectability.

Likely to be collected Amounts outstanding, which meet certain criteria indicating that the Department had a good chance of collecting the outstanding arrears. The criteria are:

- Receipt of at least one payment against the outstanding arrears in the six-month period prior to the reporting date.
- Funds received in the Department's Client Funds bank account in excess of the on-going scheduled payments for cases with arrears which, due to system limitations, could not be allocated to a case, but indicate the non-resident parent's intent to clear arrears.

Potentially collectable Amounts outstanding for which the evidence base indicating that the arrears will be recovered is not as strong as for the 'likely to be collected' category, but which meet criteria suggesting that the Department has a reasonable chance of collecting the arrears. The criteria are:

- The existence of a maintenance arrears schedule at any point during the six months prior to the reporting date, even though no payments were received in the period. Arrears schedules are established following contact with the non-resident parent, who makes a commitment to clear the arrears over a specified period. Non-resident parents do not always adhere to the schedule, but the fact that contact had been made with the individual and a commitment had been made is considered to indicate that the arrears are potentially collectable.
- For recent arrears, i.e. aged three months or less, the receipt of at least one payment against those arrears after the reporting date. Recent arrears arise on new cases, where the set-up process can mean that no receipts can be accepted immediately, or on older cases where an existing maintenance arrangement has recently broken down. Schedules are seldom put in place until arrears have been accumulating for more than six months; enforcement resources are concentrated on re-establishing broken down arrangements quickly. Consequently, receipts after the balance sheet date for young arrears are considered to provide reasonable evidence that the arrears will be cleared.
- The anticipated impact of some of the enforcement powers on the arrears, were the powers to be used more widely. The two powers considered were the deduction order, which enables the Department to seize funds from non-resident parents' bank accounts, and the use of orders for sale of non-resident parents' property.

Uncollectable These balances represent amounts outstanding which do not meet any of the criteria outlined above for the 'likely to be collected' or 'potentially collectable' categories.

Analysis of Collectability 2016/17

£'000	2003 System	1993 System	Clerical Case Database	Total
Likely to be collected	168,143	77,303	15,545	260,991
Potentially Collectable	339,430	92,159	26,938	458,527
Uncollectable	1,686,347	1,065,601	273,278	3,025,226
Total	2,193,920	1,235,063	315,761	3,744,744

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Analysis of Collectability 2015/16

£'000	2003 System	1993 System	Clerical Case Database	Total
Likely to be collected	244,247	87,374	34,623	366,244
Potentially Collectable	380,854	92,097	53,636	526,587
Uncollectable	1,681,011	1,143,068	258,813	3,082,892
Total	2,306,112	1,322,539	347,072	3,975,723

Arrears have decreased by £231m which represents a 5% overall decrease. This has mainly been driven by write off activity and adjustments to arrears carried out during the case closure process. Some of the adjustments link to cases assessed in the early years where punitive assessment rates were used to encourage compliance.

Robert Devereux
Principal Accounting Officer

Date: 11 December 2017

Statement of Accounting Officer's responsibilities

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As Principal Accounting Officer of the Department, I have responsibility for the 1993 and 2003 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 current 1993 and 2003 statutory schemes in the form and on the basis set out in the Client Funds Account Direction.

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

- observe the Accounts 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 the Accounting Officers' Memorandum, issued by HM Treasury and published in Managing Public Money.

I confirm that there is no relevant audit information that the 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

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1 Introduction

- 1.1** The Department for Work and Pensions has responsibility for the management of client funds relating to the 1993 and 2003 statutory child maintenance schemes, which include the flow of receipts from non-resident parents, payments to parents with care, the Secretary of State, and accumulated maintenance arrears. The Department operates through the Child Support Agency for the 1993 and 2003 schemes.

In accordance with an HM Treasury Direction under Section 7 of the Government Resources and Accounts Act 2000, dated 6 May 2015, the Department is required to publish a Client Funds Account for cases assessed under 1993 and 2003 scheme rules and a separate account for the 2012 scheme.

- 1.2** 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.
- 1.3** This statement covers topics which are specific to the Child Maintenance Group operating within the Department with particular emphasis on the significant control challenges identified in relation to child maintenance.
- 1.4** The control weaknesses of the systems underpinning the 1993 and 2003 statutory schemes are a result of the limitations of the systems, which have led to successive qualifications by the Comptroller and Auditor General. This statement records the action which the Department has taken to manage these control weaknesses.

2 Significant Control Challenges

2.1 Cases managed off the 1993 and 2003 systems

- 2.1.1** The Department operated two main child maintenance computer systems under the Child Support Agency umbrella during 2016/17, the 1993 system and the 2003 system. Data issues, software defects or both mean that some cases either cannot be managed at all on the 2003 system, or can only partially be managed on that system.
- 2.1.2** As at 31 March 2017, there were 27,700 cases managed wholly off the 2003 system, which has decreased from 87,700 as at 31 March 2016.

2.1.3 These cases are managed on a number of small IT systems. However, the limited functionality of these systems means a significant additional resource is required to manage these cases.

2.1.4 As with the main 1993 and 2003 computer systems, limitations within the small IT systems have, in some instances, contributed to further inaccuracies in arrears balances recorded on those systems. This is in addition to the inaccuracies arising from the issues outlined in paragraphs 2.2 and 2.3 below. Update and cleanse activities which form part of the case closure process aim to address this issue. See page 12 paragraph 2.7.1 for more details on the case closure process.

2.2 Incorrect maintenance assessments

2.2.1 Assessment accuracy remains an issue for the 1993 and 2003 schemes. It is central to the modified audit opinions on the Client Funds Account from the inaccuracy due to maintenance assessment and consequent uncertainty around the reported arrears (including the estimate for non-collectability of arrears). The accumulated inaccuracies arising mainly from earlier years continue to affect arrears balances and also contribute to the qualified regularity opinion on receipts and payments.

2.2.2 Cash Value Accuracy in 2016/17 has reduced slightly against previous years to 94%, from 96% in 2015/16. Cash Value Accuracy remains an area of focus particularly during the challenging conditions brought about by the movement of work relating to the closure of cases on the 1993 and 2003 schemes, while maintaining the growing 2012 Scheme caseload.

2.3 Adjustments to assessments and arrears

2.3.1 The accuracy of adjustments made to arrears has been a weakness for many years however; as a result of continuing management focus and caseworker education programmes there has been a stepped increase in adjustment accuracy in recent years. Accuracy remained at 96.9% in 2016/17 (2015/16 96.9%). The use of public money to correct the historic inaccuracies could not be justified given the limited life of these systems.

2.4 System and transaction controls

2.4.1 During 2016/17, the Department continued to utilise the 1993 and 2003 child maintenance systems to ensure efficient processing of receipts and payments.

2.4.2 The small systems introduced in 2010/11 have continued to deliver robust and automated solutions, providing streamlined receipt and payment processing, accuracy and efficiency. The small systems have continued to evolve as the Case Closure Programme volumes have increased and receipts paid into 1993 and 2003 systems need to be transferred to 2012 system. Amendments to the systems have led to limited manual intervention to this process.

2.4.3 A number of significant improvements have been made to the Client Funds Account Team bank reconciliation function to replace manual processes with automated functionality specifically in relation to journal postings in the general ledger.

2.4.4 As in prior years, Note 5 has been prepared using a suite of reports developed as a result of weaknesses in the information on outstanding levels of maintenance arrears (Client Funds Account 2008/09 covers this in detail). Moving cases to the 2012 IT system is the main way in which CMG intends to address this challenge; this process is covered in more detail in paragraph 2.7.1.

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2.5 Reimbursements to clients

- 2.5.1** The Department continued to make reimbursements to clients due to short-term timing differences in updating client change of circumstances across all schemes. These reimbursements are treated as a loss and recorded as such in the Department's Resource Annual Report and Accounts.
- 2.5.2** Robust authorisation and controls introduced in 2011/12 continued and the value of these payments fell by 14 per cent to £6 million in 2016/17.

2.6 Information Security

- 2.6.1** The control challenge remains to protect the vast 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 remains low. However, the system introduced to manage the 1993 scheme, is not security accredited and given its expected limited life there are no plans to pursue accreditation.

2.7 Case Closure Programme

- 2.7.1** The Case Closure Programme began in 2014 including processes to contact all 1993 and 2003 system clients to consider if they would like their arrears managed on 2012 system or written off. The current plan is for all live cases with on-going maintenance arrangements to be closed within the legislative timelines. The timing for the closure of arrears only cases will depend on the Department's arrears strategy, to be agreed once the consultation has concluded.

For clients who decide to have their arrears managed on the 2012 system, the current process is to transfer arrears from the 1993 and 2003 systems to the 2012 system via an automated process. Financial control is maintained via a daily reconciliation to ensure arrears are accurately received and attributed to the correct payee, either parent with care or the Secretary of State.

- 2.7.2** During the reporting year to 31 March 2017 £345.7 million had transferred to the 2012 system (2015/16: £130.5 million) with only £0.08 million relating to 157 cases (2015/16: £0.127m relating to 348 cases) not held on a system at year end due to timing delays in building the cases on the 2012 system. Improvements will continue to be made to this process; for example an end to end small system is currently under development to support reconciliation of the increased volumes of cases closing.

2.8 Client Fund Bank Account

- 2.8.1** 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.

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

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I certify that I have audited the Client Funds 1993 and 2003 schemes 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 balances, 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 1993 and 2003 schemes 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 1993 and 2003 schemes 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.

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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 1993 and 2003 schemes 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'

Adverse opinion on Note 5 'Outstanding Maintenance Arrears'

In my opinion, Note 5 to the account does not give a true and fair view of the outstanding maintenance arrears as at 31 March 2017.

Basis for adverse opinion on Note 5 'Outstanding Maintenance Arrears' as a result of errors in underlying data

The individual arrears balances supporting the reported outstanding arrears balance are misstated as a result of:

- inaccurate maintenance assessments by caseworkers since the inception of the statutory schemes; and
- incorrect processing of cases with arrears since the inception of the statutory schemes.

The Department is unable to estimate the value of the misstatements as a result of inaccurate maintenance assessments, but our audit work indicates that the cumulative impact on the value of arrears as at 31 March 2017 is significant.

The best estimates available to me of the impact of incorrect processing of cases with arrears indicate that they have led to overstatements of at least £16.0 million and understatements of £115.8 million within the reported balance of £3.7 billion in Note 5 to the account.

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 1993 and 2003 schemes 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.

Opinion on regularity for the Client Funds 1993 and 2003 schemes Account

Qualified opinion on regularity

In my opinion, except for the over and underpayments relating to errors in maintenance assessments, 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.

Basis for qualified opinion on regularity as a result of transactions not conforming with legislation

Certain receipts from non-resident parents (and the subsequent payments to the parent with care or Secretary of State) were for incorrect amounts because of errors in the underlying maintenance assessments. Receipts from non-resident parents of £409.3 million are shown in the Client Funds 1993 and 2003 schemes Account. I estimate that errors in underlying maintenance assessments resulted in overpayments of around £5.6 million and underpayments of around £5.7 million which are not in accordance with the relevant legislation.

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 my modified opinions are provided in my report on pages 16 to 20.

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 administering 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 new Child Maintenance Service (CMS) 2012 statutory child maintenance scheme, support children by collecting funds from non-resident parents and paying these funds to parents with care.

2. This report relates specifically to the Client Funds 1993 and 2003 schemes Account (the Account) and considers the Department's progress in its management and closure of cases on these schemes. I have produced a separate report on the Client Funds 2012 scheme Account (HC610).

Key findings

3. The Department for Work and Pensions (the Department) has not managed 1993 and 2003 child maintenance scheme cases with sufficient accuracy. This has led to material levels of inaccurate receipts and payments in the 2016-17 Account. Where assessment calculations are inaccurate, the associated receipts and payments do not conform to scheme rules and are irregular. I have therefore qualified my regularity audit opinion in respect of these inaccurate receipts and payments, which I estimate to be £11.3 million, 2.75% of the total value of receipts made during the year. The modifications to my regularity audit opinion on the Account are longstanding and reflect significant and ongoing problems in the accurate calculation of maintenance and with the underlying IT systems.

4. The £3.7 billion arrears balance reported does not provide a true and fair view of unpaid maintenance. I estimate that the arrears balance is understated by at least £99.8 million, 2.67% of the total arrears balance. Individual arrears on cases are misstated due to errors in the underlying assessment calculations and due to errors in adjustments to the balances, compounded where cases are managed outside of the IT systems.

5. The Department is closing all cases on the 1993 and 2003 schemes. By the end of December 2018, all child maintenance cases in Great Britain requiring state support will be administered under the newer 2012 child maintenance scheme. The Department is running the older 1993 and 2003 schemes concurrently with the 2012 scheme while it closes 1993 and 2003 cases.

6. Case closure will not address all issues relating to the 1993 and 2003 child maintenance schemes. The Department continues to seek recovery of arrears accumulated under the older schemes but is not carrying out retrospective correction of

arrears to ensure the accuracy of the £3.7 billion that is owed. It is also unable to write off arrears that are uncollectable, except in very limited circumstances. Without such actions the issues that have led me to issue an adverse opinion on the arrears balance will remain unresolved, and the accounts will continue to report a significant outstanding arrears balance long after all cases are closed.

Recommendations

7. The issues that lead me to qualify the Account are not expected to be sufficiently addressed in the course of case closure as currently planned. It is my view that the inaccuracies, both historic and current, in the arrears balance and the ongoing maintenance assessments need to be addressed by the Department both for the benefit of the people who have used this service, and to be able to draw the 1993 and 2003 schemes to a full close. I recommend that the Department:

- Ensures that case closure is completed by the end of December 2018, the current legislative timescale. Case closure can cause disruption to parents who have or have had child maintenance cases under the 1993 or 2003 child maintenance schemes. It is important that this disruption is minimised;
- Provides sufficient, accurate data to parents on case closure to enable parents to make informed decisions about their child maintenance arrangements and to pay any arrears due.
- Concludes the consultation on outstanding arrears balances and takes action to ensure that these balances can be collected or written off and do not remain as an outstanding balance long past the closure of all active cases.

Qualified opinion due to irregular 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 the 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. While the Account properly presents the amounts of child maintenance received and paid in year, I have again qualified my regularity opinion on the grounds of material errors in the calculations of maintenance assessments underpinning receipts and payments. These assessments are not in accordance with specific legislative requirements and therefore associated receipts and payments are irregular.

1.3. The original 1993 legislation required up to 148 different pieces of information to calculate a maintenance assessment. An error in any element of the assessment will impact the accuracy and so regularity of the child maintenance received from the non-resident parent. Ordinarily there are multiple assessments throughout the lifetime of a case to reflect changes in circumstance. Where such reassessments occur, the likelihood of error increases as the level of manual case worker intervention increases. It is this level of complexity, together with inadequate computer systems, that has led to the significant levels of error in child maintenance assessment calculations historically.

1.4. As part of my audit I have reviewed the findings of the Department's Quality Assurance Team (QAT) that carries out testing of child maintenance assessments and have estimated that errors in assessments result in overpayments of child maintenance amounting to £5.6m (£3.3m in 2015-16) and underpayments totalling £5.7m (£4.5m in 2015-16). The cases

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affected by overpayments are unconnected to the cases affected by underpayments, and consequently I have had to consider the gross error figures. I have therefore qualified my regularity audit opinion on the basis of a gross value of irregular receipts and payments of £11.3m for 2016-17, representing 2.75% of total receipts (£7.8m in 2015-16, representing 1.22% of total receipts).

1.5. Unlike the 2012 child maintenance scheme cases, the 1993 and 2003 child maintenance scheme cases are not subject to an annual review. As a result, there are receipts and payments in the 2016-17 account that are based upon maintenance assessments that were calculated in previous years. To take account of this fact, I do not consider the accuracy of calculations processed in 2016-17 in isolation, but also take account of historic rates of error when forming my estimate of accuracy in receipts and payments. Therefore, the error rate I have estimated will differ from the in-year error rate calculated by the Department.

Adverse opinion on Note 5 'Outstanding Maintenance Arrears'

1.6. 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 and reports it in Note 5 of the Account. The balance of £3.7 billion as at 31 March 2017 is the cumulative total of outstanding arrears since the Child Support Agency was established in 1993. This balance represents the total amount owed by non-resident parents to either the parent with care or, in some instances, the Secretary of State. Current legislation allows the Department to write off arrears only in limited circumstances.

1.7. I am required to give an opinion on whether the outstanding maintenance arrears balance as at 31 March 2017 is true and fair. In my opinion there is material error in the value of arrears recorded in Note 5 to the Account and as a result I have concluded that Note 5 does not give a true and fair view of the maintenance arrears outstanding at 31 March 2017. My view is primarily a result of the impact on the arrears balance of incorrect maintenance assessments, incorrect adjustments of arrears, and management of records outside of the 1993 and 2003 IT systems that results in further errors.

1.8. Of these three factors, I am only able to quantify reliably the impact of incorrect adjustments to arrears balances. Caseworkers administering child maintenance cases are able to adjust the value of arrears on individual cases. This is to allow the Department to take retrospective action when circumstances change that alter the value of maintenance due.

1.9. Note 5 to the Account reports the arrears balance net of any caseworkers' adjustments, which means that any errors made in the calculation of these adjustments affect the arrears balance reported. I estimate that arrears are understated by around £99.8 million (2.7% of the total arrears balance), made up of an estimated overstatement of £16.0 million, 0.4% of the total arrears balance (£15.9m in 2015-16) and understatement of £115.8 million, 3.1% of the total arrears balance (£115.8m in 2015-16) as a result of such errors. The Department is unable to adjust the arrears note in order to correct these errors as this an estimate of misstatement not individual errors on individual arrears balances.

1.10. The Department is no longer able to provide sufficient data to quantify the impact of incorrect maintenance assessments on arrears. Where the Department has made incorrect maintenance assessments, any arrears accruing will also be at an incorrect rate. Historic estimates of the impact of incorrect assessment on arrears were material; as no action has been taken to correct these assessments I consider there remains a material level of error in arrears balances as a result of incorrect maintenance assessments.

1.11. The Department is also unable to quantify the level of errors introduced in administering cases outside of the IT systems, and the impact of these on the arrears balance. In previous years I have identified error in these cases that the Department has not taken action to correct.

1.12. As the impact of incorrect adjustments to arrears is, alone, material to the value of the arrears balance, I have not sought to quantify the impact of incorrect maintenance assessment or errors in the administration of records outside of the IT systems in forming my opinion on the arrears balance.

Closure of the 1993 and 2003 child maintenance scheme cases

1.13. The Department's focus continues to be on the closing of cases on the 1993 and 2003 schemes and supporting customers to either create a family based arrangement or apply under the 2012 scheme rules to arrange child maintenance. The Department has prioritised closing cases with continuing maintenance payments, but has closed some cases with arrears only as part of a pathfinder exercise.

1.14. The Department, in its experimental statistics reporting the progress of case closure up until June 2017, has reported that 771,000 cases had been closed as of June 2017 of a total expected 812,000 cases due to be closed.³

Impact of case closure on the regularity of receipts and payments

1.15. Cases assessed under the 2012 child maintenance scheme are increasingly automated and the Department has reported significantly improved accuracy as a result. Any parents opting to apply for a case under the new scheme after the closure of their 1993 or 2003 schemes case will have their case assessed in accordance with much simpler 2012 child maintenance scheme rules. Further detail on the 2012 child maintenance scheme can be found in my report on the Client Funds 2012 Scheme Account (HC610).

1.16. Once all cases assessed under the 1993 and 2003 schemes have been closed, the value of receipts and payments made in the Account will decrease significantly as the only receipts and payments recognised will be those that relate to arrears built up prior to cases being closed. However, some of these receipts and payments will continue to relate to arrears built up on the basis of inaccurate assessments and so will not be in accordance with the scheme rules and will be irregular.

Impact of case closure on the outstanding arrears balance

1.17. As cases are closed, parents with care are asked whether they wish for the arrears built up under the 1993 or 2003 schemes to be written off. To date, very few balances have been written off, so the likely position following full case closure is that the Account will continue to disclose a large arrears balance; a balance that I consider to be materially misstated.

1.18. The Department notes in its annual report that £3.0 billion of the £3.7 billion arrears balance is considered uncollectable. These arrears are largely long standing and, being older balances, can be more difficult to recover. The Department also, currently, has limited powers to write off arrears balances accumulated. With a few exceptions, write-off can only take place with agreement from both parents or with the death of the non-resident parent.

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/642327/csa-case-closures-to-june-2017.pdf

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1.19. The Department has a proposal out for consultation which aims at tackling the current outstanding arrears balance. This proposal includes specific actions the Department intends to carry out, which would go some way in reducing the overall arrears balance. However, it is currently unclear how much of the £3.7 billion this proposal would address if it is approved.

1.20. In March 2017 I reported on the case closure programme in my investigation 'Child maintenance: closing cases and managing arrears on the 1993 and 2003 schemes' (HC1054). In response to concerns raised with me by Parliament and users of the schemes, I reported on the Department's closure of cases on the 1993 and 2003 schemes, and also the management of arrears on those schemes.

1.21. During my investigation I found that, although the Department has taken steps to 'cleanse' arrears balances through resolving any outstanding actions or queries from parents on cases due for closure, a full recalculation of the arrears balance is not performed and therefore errors relating to incorrect assessments or adjustments continue to exist within the arrears balances for some cases. The Department has informed me that cleansing this arrears balance would require a significant level of manual intervention and that it is prioritising the resourcing of other activities in the Department, including welfare reform.

1.22. The likely position, following full case closure, is that this account will continue to disclose a large arrears balance, even after all cases are closed, a balance that I consider to be materially misstated.

Sir Amyas C E Morse

Date: 13 December 2017

Comptroller and Auditor General

National Audit Office

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Receipts and Payments Statement for the year ended 31 March 2017

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	Notes	2016–17 £000's	2015–16 £000's
Receipts:	2	409,344	638,472
Bank Interest	3	-	-
Total Receipts		409,344	638,472
Less payments to:			
Persons with Care	2	396,900	621,126
Secretary of State	2	11,448	12,895
Non-resident Parents/employers	2	8,050	6,041
Department in respect of fees	2	115	96
Total Payments		416,513	640,158
Net receipts/(payments)		(7,169)	(1,686)
Balance as at 1 April		20,425	22,111
Balance as at 31 March		13,256	20,425

Statement of Balances as at 31 March 2017

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	Notes	31 March 2017 £000s	31 March 2016 £000s
Opening balance		20,425	22,111
Movement		(7,169)	(1,686)
Closing cash balance	4	<u>13,256</u>	<u>20,425</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 Her Majesty's Treasury (HM Treasury). The outstanding maintenance arrears note, which is prepared on an accruals basis, records amounts owed by non-resident parents as at 31 March 2017, along with movements in these arrears balances during the financial year.

A new Account Direction, dated 6 May 2015, confirmed all transactions relating to cases assessed under the 1993 or 2003 schemes will be reported in a separate Client Funds Account to the 2012 Scheme assessed cases. There is a separate Account Direction and Client Funds Account publication for 2012 Scheme cases.

The account has been prepared under the historical cost convention.

2 Receipts and payments

Receipts from clients relate to child maintenance and fees collected from non-resident parents by the Department for payment to parents with care (maintenance) or to the Secretary of State (where pre-2008 maintenance offsets benefits paid to the parent with care) and monies due to the Department (fees for DNA and court costs).

The receipts quoted in the Receipts and Payments Statement differ from the receipts total shown in movements on outstanding maintenance arrears (see Notes 5.0 and 5.1). This is due principally to timing differences and the inclusion of non-maintenance receipts in the amounts shown in the Receipts and Payments Statement.

Monies are also received from the Secretary of State to refund non-resident parents in cases where an overpayment has been made and the amount is irrecoverable. This totalled £2.4 million (2015/16, £7.0 million) and is disclosed as a loss in the Department's Annual Report and Accounts 2016/17.

Included in the £396.9million (2015/16, £621.1 million) paid to the parent with care is £1.5 million (2015/16, £1.7 million) paid to the Northern Ireland Child Maintenance and Enforcement Division to fund payments made on the Department's behalf.

The payments to the Secretary of State of £11.4 million have been made in respect of funds received on cases where clients were in receipt of benefit at the time of the assessment, pre-October 2008. The repeal of Section 6 of the Child Support Act 1991 in October 2008 resulted in all cases being re-classified as private cases with no involvement with the benefit system. However, when funds are received which relate to periods when clients were in receipt of benefits these payments continue to be made to the Secretary of State.

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Other payment categories relate to refunds/reimbursements to non-resident parents and employers for overpayments of maintenance, totalling £8.0 million in 2016/17 (2015/16, £6.0 million). Also, payments were made to the Department in respect of fees for DNA tests and court costs, £0.12 million in 2016/17 (2015/16, £0.09 million).

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 accounts 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. The new 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 were held in the Client Funds bank accounts.

5 Outstanding Maintenance Arrears

Under the Accounts Direction dated 6 May 2015 issued by HM Treasury, the Department is required to disclose the balances outstanding from non-resident parents at the year end, the movements in the balances outstanding between the beginning and end of the year.

On 31 January 2013, the Government published "Preparing for the future, tackling the past: Child Maintenance – Arrears and Compliance Strategy 2012–2017". This explained that in reforming the statutory Child Maintenance Service, the Government's chief priority is to ensure more parents pay the child maintenance they owe not only in full, but also on time. Only by the effective prevention and management of arrears can we get more money flowing to children and avoid increasing debts owed by parents for their children.

The operational priority of the statutory service is to collect money for children who will benefit from regular on-going maintenance payments today, rather than prioritising the pursuit of historic arrears in cases where the children have now grown up.

5.0 Outstanding maintenance arrears at 31 March 2017

	Notes	2003 System £000s	1993 System £000s	Clerical Case Database £000s	Total £000s
Outstanding maintenance arrears as at 1 April 2016	a	2,306,112	1,322,539	347,072	3,975,723
Write off	5.1ii	(30,413)	(50,370)	(3,127)	(83,910)
Maintenance charged in year	5.1i	244,798	(8,932)	4,012	239,878
Maintenance received in the year	5.1iii	(326,577)	(28,174)	(32,196)	(386,947)
Outstanding maintenance arrears at 31 March 2017	5.1iv	2,193,920	1,235,063	315,761	3,744,744

Note a

The format of this note reports by system rather than scheme basis. 1993 and 2003 scheme arrears of £478.7 million at 31 March 2017 (£153.2 million, 31 March 2016) are hosted on 2012 system and are reported in the table above according to the system they transferred from.

5.1 Movements in outstanding maintenance arrears

The following notes explain movements from the opening outstanding maintenance arrears balance to the closing balance:

- i) Maintenance charged during the year and other adjustments. This comprises: assessments made on non-resident parents during the year; outstanding maintenance arrears transferred to and from the Northern Ireland Child Maintenance and Enforcement Division, 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 offset against the maintenance due. The amount charged in 2016/17 was £240 million (2015/16, £669 million); the decrease is in line with the Case Closure Programme, to close cases on the 1993 and/ 2003 systems. For the 1993 system, adjustments to reduce arrears balances, specifically on cases where an Interim Maintenance Assessment was in place, have exceeded in value the amount of maintenance charged during the year, leading to a negative balance of maintenance charged.
- ii) 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, with £84 million being written off on 1993 and 2003 scheme cases (2015/16, £31 million), the increase is a direct result of the case closure process.
- iii) Maintenance received during the year. This comprises amounts received from non-resident parents and the Northern Ireland Child Maintenance and Enforcement Division during the year. When a receipt is subsequently allocated to a case by the child support computer systems, the receipt becomes a constituent of the arrears balance for that case. The timing difference between receipt, assignment and allocation contributes to the difference between the value of the receipts in the Receipts and Payments Statement and the receipts in Note 5. The total value of receipts allocated to cases in 2016/17 was £387 million (2015/16, £619 million).

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- 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.

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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