



Department
for Work &
Pensions

Client Funds Account 2018/19

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 30 January 2020

HC 34



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This publication is available at <https://www.gov.uk/government/collections/child-maintenance-client-funds-accounts>

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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 delivered by the Child Support Agency. These schemes support children by arranging maintenance and where the collection service is used, paying funds obtained from the paying parent to the receiving parent after relevant charges have been deducted.

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

The opinions for this account are given by the Comptroller and Auditor General in the audit certificate, with rationale for these opinions explained in his report. Since 2016-17, the accuracy with which DWP caseworkers assessed child maintenance has been at a level where he and his predecessor have been able to issue an unmodified opinion on the regularity of receipts and payments for the 2012 child maintenance scheme. The Department has maintained accuracy levels during this financial year, so he is able to issue an unmodified opinion on the Account for 2018-19. His opinion on whether the account has been properly prepared is, as in previous years, unqualified. Further information on accuracy can be found in section 2.2 of the Governance Statement.

Peter Schofield
Principal Accounting Officer

Date: 22 January 2020

Management commentary

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1.1 Major reforms

The Department has nearly completed the Government's major reforms to child maintenance. The reforms are intended to incentivise separated parents to work in partnership for the benefit of their children, and to provide an effective child maintenance service to ensure money is transferred between parents to support the costs of raising children. As part of the reforms, the Department is also closing the Child Support Agency (CSA) and adding to the powers of the Child Maintenance Service by introducing new enforcement and collection powers designed to provide greater levels of financial support to help meet the everyday living costs of children in separated households.

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 help 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&2}

Before accessing the statutory Child Maintenance Scheme all separated parents are required to contact Child Maintenance Options, a free service that provides impartial information and support to help separated parents make informed choices about their child maintenance arrangements. We have enhanced this service through an improved online offering to support parents in considering the range of choices available in setting up an arrangement. 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 as well as benefits in payment. The system supporting the scheme retrieves this data automatically from Her Majesty's Revenue and Customs (HMRC) and the Department's benefits systems to carry out the assessment making the process efficient. In a small percentage of cases, where no historic data is available from HMRC, the caseworker can check for evidence of current income from HMRC and it is only if this is not available that the paying parent is asked to provide written evidence of current 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.

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

² <https://www.eif.org.uk/report/what-works-to-enhance-interparental-relationships-and-improve-outcomes-for-children>

Where no income data is provided the Department is able to impose a default maintenance decision. This is reviewed quarterly to see if better income information is available.

In December 2018 we received Parliamentary approval to widen the definition of income used in new assessment calculations to include income generated from assets, for example property and overseas investments.

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 paying parents, and to reduce costs for the taxpayer.

From 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 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. There are no exemptions for collection fees.

The introduction of charging to use the Child Maintenance Service is a key lever to encourage collaboration and reflects a stronger emphasis on parental responsibility. Charges are intended to make parents pause and consider the different maintenance options available to them rather than assuming that their only recourse is to a statutory arrangement. 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.

Another 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 were selected systematically for closure. Once selected, parents were given six months' notice in writing of the date on which their existing CSA liability would end and were advised to contact the CM Options service to discuss their future maintenance arrangements, which could be an application to the Child Maintenance Service or a Family Based Arrangement. The on-going liability (requirement to pay child maintenance) was ended on all CSA cases before the end of December 2018, of these 24% had made an application to the Child Maintenance Service.

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.

A consultation was launched in December 2017 which sought proposals to strengthen the powers of the Child Maintenance Service; our response was published in July 2018. Full details of the consultation can be found here: [Child Maintenance: a new compliance and arrears strategy](#)

The key principles underpinning this strategy, are to:

- Continue to prioritise collecting money for today's children.
- Continue to encourage collaboration between parents.
- Build on the success of CMS by introducing tougher new enforcement measures and making the best use of current powers.
- Address historic arrears built up under the CSA schemes.
- Avoid taxpayers funding activity that won't result in money going to children.

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Regulations supporting the strategy came into effect in December 2018. These regulations allow us, where appropriate, to bring a wider range of income and assets in scope when working out the amount of maintenance owed. It also extends the range of accounts the CMS can seize funds from to include joint and business accounts and also gives us the ability to disqualify a person for holding or obtaining a UK passport if appropriate.

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. More information can be found in our separate publication.³

1.2 Performance during 2018/19

The caseload at 31 March 2019 was 475,400 (March 2018, 415,000), this included parents using both the Collect and Pay Service and the Direct Pay Service. This was an increase of 15% since 31 March 2018 and was partly driven by cases that closed on the old CSA schemes where parents then made applications to CMS.

Of the Collect and Pay caseload 67% (2017/18, 60%) of case groups were contributing towards their current liability, the highest compliance level recorded since the 2012 Scheme began. This improvement is a result of the introduction of a concept known as 'Total Enforcement' which ensures everyone in CMG takes appropriate action throughout the lifecycle of a case to drive compliance and secure money for children.

At March 2019 689,000 children were covered by the Child Maintenance Service, 452,000 through Direct Pay arrangements and 234,500 by arrangements through the Collect and Pay Service. Cases covering 2,500 children had not been assigned as parents were considering which service to use or were in the process of changing service. If payments are not being made by parents using Direct Pay, the Receiving Parent can ask the Child Maintenance Service to step in, the case is changed to Collect and Pay and fees are charged. At March 2019, 37% of Paying Parents were using the Collect and Pay service, a 2% increase on the previous year.

In the last year, the Department estimates that £824.4 million (2017/18, £641.1 million) was paid between parents. Figures 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.

The totals comprise:

- £658.5 million through Direct Pay (2017/18, £539.5 million) and,
- £165.9 million through Collect and Pay (2017/18, £101.6 million).

Since the start of the Child Maintenance Service 2012 Scheme the Department estimates that £2,235.5 million (March 2018, £1,411.1 million) has been paid between parents.

³ <https://www.gov.uk/government/collections/child-maintenance-client-funds-accounts>

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. As at the end of March 2019, 69% of Paying Parents were using Direct Pay and 37% were using the Collect and Pay Service; 6% of Paying Parents had used both services.

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

1.4 Collect and Pay

1.4.1 Receipts of child maintenance from Paying Parents

During 2018/19, 1.8 million (2017/18, 1.2 million) individual receipts were received totalling £147.9 million (2017/18, £89.4 million), all of these receipts were received electronically.

1.4.2 Payments of child maintenance to Receiving Parents

During 2018/19, 1.7 million (2017/18, 1.1 million) individual payments were made to receiving parents with a total value of £138.8 million (2017/18, £83.1 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 or have been received slightly in advance of when they are due. This led to the Child Maintenance Service holding a cash balance at 31 March 2019 of £11.9 million, equating to 7% of the funds received during the year (31 March 2018, £7.8 million, 7%).

1.4.3 Unpaid Maintenance

In addition to reporting the receipts and payments of Child Maintenance, the Department is required to report on amounts that paying parents owe to receiving parents. This totalled £275.5 million at 31 March 2019 (31 March 18, £197.9 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 using Direct Pay. In spite of this, at 31 March 2019, 59% (31 March 2018, 54%) of Child Maintenance due had been paid which compared favourably with 45% for the 1993 and 2003 Schemes after seven years of operation.

Included in the unpaid maintenance balances at 31 March 2019, is an element which has not yet been requested from the paying parent. This occurs because there is a short period between the date of the claim and the first payment being scheduled as due for payment.

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At 31 March 2019, 10.8% of child maintenance due was outstanding. This measure, which includes unpaid maintenance transferred from direct pay if a case has changed service type, has shown a continuous improvement since 2015.

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

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

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

- Taking money from the Paying Parent's earnings through a deduction from earnings order/request. The Child Maintenance Service will tell the Paying Parent's employer how much to take from their wages. The employer must then pass on the money or they can be taken to court.
- Taking money directly from the Paying Parent's bank or building society by deduction order. This Financial year, our powers have been extended to include Joint, Business and Partner accounts
- Taking the Paying Parent to court. The courts can grant liability orders which allow the parent to be referred to Enforcement Agents who could sell property to pay the unpaid maintenance and any costs. The courts can also apply a charging order which secures the debt against a property and ultimately force the parent to sell property through an order for sale, and use the money to pay off the unpaid maintenance. If these methods fail, the Child Maintenance Service can apply for the courts to disqualify the parent from driving or send them to prison. In addition, we gained new powers this financial year to confiscate the passports of non-compliant paying parents.

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

We are also aiming to better understand the make up of unpaid maintenance by categorising non-paying cases based on the likelihood of recovery, segmenting it based on the timeframe for recovery and potential cost. This approach will take into account detailed income and asset analysis, along with information on employment and residency and will allow us to strategically prioritise individual categories.

The table below shows that although unpaid maintenance balances are growing, over 58% of the amount outstanding is being pursued in some form whether in surveillance or enforcement and 37% are scheduled and paying so we are actively collecting this maintenance.

Classification of unpaid maintenance

Unpaid Maintenance categories	£m	%
Not due	3.8	1.4%
Scheduled and Paying	101.9	37.0%
Enforcement/Surveillance etc.	161.4	58.6%
Pending allocation to a classification	8.4	3.0%
	275.5	100.0%

This improved compliance and our better understanding of the categories of unpaid maintenance coupled with new powers available in its pursuit, leads us to maintain our position that this unpaid maintenance is collectable. We will review this once the impact of our new powers is evidenced.

1.4.4 Age of Unpaid Maintenance outstanding

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 child maintenance 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 which might limit the enforcement actions available to us.

In spite of this, as over 90% of this debt is recent, having being raised in the preceding three financial years and given the new powers referred to in the Management Commentary have only recently come in to force, we continue to report outstanding unpaid maintenance as collectable.

Analysis of unpaid maintenance by year they originate:	£m
2012/13	NIL
2013/14	0.9
2014/15	7.0
2015/16	18.4
2016/17	44.2
2017/18	83.7
2018/19	121.3
Total	275.5
Note: Amounts have accrued since 2012/2013 when the scheme commenced	

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The Department has increased the focus on tackling unpaid maintenance, moving cases more quickly into Enforcement and promoting more reliable methods of payment such as deductions from earnings orders. This has delivered visible impacts. The quarter to March 2018 was a turning point with non-paying case groups reducing for the first time in spite of an increasing caseload. Compliance, the percentage of Paying Parents using the Collect and Pay Service and paying some child maintenance in the quarter increased from 60% at March 2018 to 67% by March 2019.

1.4.5 Statutory Child Maintenance Scheme costs, fees and charges

Non-child maintenance receipts of £34.8 million collected during 2018/19 (2017/18, £22.2 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.

1.5 Assessment Accuracy

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

With the 2012 scheme, the Department has simplified the way it administers child maintenance. For example, it has simplified the calculation and significantly reduced the number of procedures and manual interventions involved in its administration, using direct interfaces with HMRC and the Department's benefit systems to establish parental income so increasing 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 to identify and quantify this impact with methodology being refined each year as the impact on reported accuracy is better understood.

Last year we reported automation at 76.5% by volume of transactions. We are now able to source information on the value of these decisions which, given the audit offers an opinion on monetary accuracy, is more appropriate. In 2017/18, based on values, 75.1% of transactions were automated, this increased by 1% in year to 76.1%. This rise is partly due to system enhancements which have reduced the need for caseworker intervention, particularly at initial calculation stage and also an increase in the number of cases undergoing annual review, which is where each case is updated after 12 months using the latest gross income, usually sourced automatically from HMRC.

System enhancements continue to be made and during this Financial Year enhancements have been made which automate caseworker actions in relation to the allocation of voluntary payments made between clients, further reducing the likelihood of error. 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 allowing these automated decisions to be reflected in the reported accuracy of 99.2%.

Peter Schofield
Principal Accounting Officer

Date: 22 January 2020

Statement of Accounting Officer's responsibilities

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

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

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

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

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

Peter Schofield
Principal Accounting Officer

Date: 22 January 2020

Governance Statement

3

1 Introduction

The Department for Work and Pensions has responsibility for the management of client funds relating to the 2012 statutory child maintenance scheme. The Department operates the 2012 scheme through the 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 2019 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.⁴

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

2 Control challenges: 2012 Scheme

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

2.1 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 up skilled in CMS casework as the work on CSA schemes concludes and caseload on the CMS scheme grows. A training programme targeted at improving the financial understanding of caseworkers is being rolled out which will contribute to improvements in the quality of caseworker actions.

⁴ <https://www.gov.uk/government/publications/dwp-annual-report-and-accounts-2018-to-2019>

2.2 Assessment Accuracy

Our estimate of assessment accuracy for 2018/19 is 99.2% which remains broadly in line with 2017/18 (99.1%).

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

Better Management Information has also contributed to improving accuracy through increased transparency of the CMS 2012 system. CMG Operations has implemented targeted checking regimes, developed using this improved Management Information. This has allowed early identification of 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.

2.3 Information Security

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

The General Data Protection Regulations (GDPR) came into effect on 25 May 2018 together with the 2018 Data Protection Act. These changes represent the biggest shake-up in data protection and privacy legislation in the EU for three decades, strengthening existing data protection law and updating it to take into account changes in technology and attitudes to privacy in the digital age. As a result, the Department has adopted the GDPR Article 29 Working Party guidelines on Personal Data Breach Notification which may be accessed at:

http://ec.europa.eu/newsroom/article29/item-detail.cfm?item_id=612052.

In relation to personal data breaches, the Department follows the guidelines from the Information Commissioner which can be found at: <https://ico.org.uk/for-organisations/guide-to-the-general-data-protection-regulation-gdpr/personal-data-breaches>.

In 2018-19 the ICO made 44 enquiries of the Department, about issues reported to ICO by child maintenance clients. In each case, DWP made a prompt and satisfactory response to ICO and no further action was taken.

Further information about Data Protection is being addressed within the Department can be found in the DWP Annual Report and Accounts for 2018-19:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/812722/dwp-annual-report-and-accounts-2018-2019.pdf

2.4 Management Information

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

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

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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 unpaid maintenance and enforcement activity.

2.5 System Stability

The year has seen improved stability and performance from the core CMS2012 system. Application monitoring is now extensively used to identify and rapidly rectify application problems. This said, there have been some performance and availability issues. These disruptions were often the result of broader impacts to the Digital estate which were necessary to address ageing infrastructure and supplier arrangements.

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

4

Opinion on financial statements

I certify that I have audited the Client Funds 2012 scheme Account for the year ended 31 March 2019 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. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

The financial statements properly present the receipts and payments and arrears of the Client Funds 2012 scheme Account for the year ended 31 March 2019 and the cash balances held as at 31 March 2019; and

The financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions thereunder.

Opinion on regularity

In my opinion, in all material respects the receipts and payments 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.

Basis of opinions

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

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the DWP's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude

that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer of DWP is responsible for the preparation of the financial statements and for being satisfied that they properly present the receipts and payments of the Client Funds 2012 scheme Account for the year ended 31 March 2019, the cash balances held as at 31 March 2019 and the outstanding maintenance arrears as at 31 March 2019.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments recorded in the 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.

Other Information

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

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

My report on the 1993 and 2003 Child Maintenance Scheme Client Funds Account 2018-19 (HC 35) looks at the administration and closure of cases under the 1993 and 2003 Child Maintenance Schemes. This includes details of the Department of Work and Pensions' new Compliance and Arrears Strategy to enforce compliance with maintenance assessments and collect unpaid maintenance that is also relevant to the administration of the 2012 Child Maintenance Scheme.

Gareth Davies
Comptroller and Auditor General

Date: 27 January 2020

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

Receipts and Payments Statement for the year ended 31 March 2019

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	Notes	2018/19 £000s	2017/18 £000s
Receipts:			
Child Maintenance from paying parents	2	147,939	89,362
Fees, charges and other recoveries collected on behalf of the Secretary of State	2	34,803	22,232
Receipts pending allocation	2	-	-
Total Receipts		182,742	111,594
Payments:			
To receiving parents	2	138,800	83,147
Refunds to paying parents/employers	2	5,022	3,101
Fees, charges and other recoveries collected on behalf of the Secretary of State	2	34,803	22,232
Total Payments		178,625	108,480
Net receipts/(payments)		4,117	3,114
Balance as at 1 April		7,809	4,695
Balance as at 31 March		11,926	7,809

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Statement of Balances as at 31 March 2019

	Notes	31 March 2019 £000s	31 March 2018 £000s
Opening balance		7,809	4,695
Movement		4,117	3,114
Closing cash balance	3	<u>11,926</u>	<u>7,809</u>

Notes to the account for the year ended 31 March 2019

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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 paying parents as at 31 March 2019, 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. Until the receipt is allocated to a case, we are unable to determine whether it relates to a CMS 2012 Scheme case, or a Legacy case which has transitioned to the CMS 2012 IT system. As a result, there is an element of receipts, reported in this publication which may belong to Legacy Schemes and form part of their Receipts and Payments Statement.

Payments made to the Department also include payments relevant to the Department for Communities 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 paying parents and employers for overpayments of maintenance and any costs recovered from paying parents and income from fees and charges are paid to the Department.

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

3 Statement of balances

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

4 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 Communities in Northern Ireland, and adjustments arising from cancelled or terminated assessments; or where the liability has been reduced, for example, as a result of a direct payment between parties being offset against the maintenance due. Once the initial calculation is provided to clients, they are given an opportunity to review and confirm details before a payment schedule is issued. This necessary delay means that some arrears have accumulated before the payment plan is in place, which is usually received in the first 12 months.
- ii) Amounts written off. 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 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 2018/19 was £144.2 million (2017/18, £87.4 million). The principal difference between the value of the receipts in the Receipts and Payments Statement (2018/19, £182.7 million) (2017/18, £111.6 million) and those reported in Note 4 is due to the inclusion of non-child maintenance receipts, mainly fees and charges in the Receipts and Payments Statement. Also, the Receipts and Payments statement is prepared on a cash basis so there is a further timing difference between cash being received in our Bank Account and being allocated to a case.
- iv) Outstanding maintenance arrears as at 31 March 2019. 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	2018/19 £000s	2017/18 £000s
Outstanding maintenance arrears at start of year		197,921	113,783
Maintenance charged in year and other adjustments	4.0 i)	228,941	176,307
Amounts written-off	4.0 ii)	(7,221)	(4,800)
Maintenance received in year	4.0 iii)	(144,175)	(87,369)
Outstanding maintenance arrears at year end	4.0 iv)	275,466	197,921

5 Events after the reporting date

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

