



Department  
for Work &  
Pensions

# Client Funds Account 2019/20

1993 and 2003 Child Maintenance  
Schemes

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

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

HC 1034





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# Foreword

The Department for Work and Pensions (the Department) is responsible for the management of client funds for child maintenance in Great Britain operated by both the 1993 and 2003 statutory child maintenance schemes, delivered by the Child Support Agency (CSA), and the 2012 scheme, delivered by the Child Maintenance Service. 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 retained by the Secretary of State in lieu of benefit paid.

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

The opinions for this account are given by the Comptroller and Auditor General in the audit certificate, with rationale for these opinions explained in his report.

The 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, 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 on value for money grounds. During the closure of the 1993 and 2003 schemes, the Department has undertaken a review of arrears balances for CSA cases, however, the Department has not carried out a wholesale review and re-calculation of individual case balances.

To strategically address these historic failings of the 1993 and 2003 schemes, the 2012 scheme was introduced, underpinned by a completely new Information Technology system. Since 25 November 2013, all new applications for child maintenance have been made to the 2012 scheme. The requirement to pay on-going child maintenance for all CSA was ended on 31 December 2018, and all CSA clients were invited to make an application to the Child Maintenance Service.

Unpaid maintenance payments, or arrears, for cases on the 1993 and 2003 schemes have been transferred to the 2012 computer system. These arrears are particular to the 1993 and 2003 schemes and are reported in this publication.

The Department had previously consulted on the treatment of historic arrears remaining on the 1993 and 2003 Information Technology systems where there is no on-going liability. The Department's response was published in July 2018 and set out the approach for addressing these arrears through the Compliance and Arrears Strategy which includes proportionate efforts to collect arrears where the parent with care requests it and where the values are above value for money thresholds.

Regulations came into force in December 2018 enabling debt to be written off below agreed thresholds or above these thresholds where the parent has requested that the

Department attempt collection and the collection cycle has been exhausted (see section 2.5.3.) Where the collection cycle has been exhausted, the Department notifies both clients.

The value of receipts received by the 1993 and 2003 schemes has decreased by 19% to £45.6 million in 2019/20 (2018/19, £56.2 million). The value of payments has decreased by 25% to £45.3 million 2019/20 (2018/19 £60.5 million) and are expected to continue to decrease in future years with the activity described earlier in this foreword to close cases on the 1993 and 2003 schemes.

**Peter Schofield**  
**Principal Accounting Officer**

**Date: 10 December 2020**



# Management commentary

# 1

## 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 that money is transferred between parents to support the costs of raising children. As part of the reforms, the Department is closing the CSA and has added to the powers of the Child Maintenance Service (CMS) by introducing new enforcement and collection measures designed to provide greater levels of financial support to help meet the everyday living costs of children in separated households.

Alongside these reforms, the Department is taking steps to improve the 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 and low parental conflict, tend to enjoy a wider range of better future outcomes.<sup>1</sup>

Where parents are unable, or it is not appropriate for them, to come to their own family based arrangement, they can apply to the CMS 2012 scheme. Further details about the scheme can be found in the Client Funds Account for the 2012 scheme.

A key element of the child maintenance reforms is the closure of existing CSA 1993 and 2003 scheme cases, which affected 1.3m cases in total; around 800,000 that had an on-going liability (the requirement to pay on-going child maintenance), and around 500,000 that had only arrears outstanding.

All on-going liabilities ended on CSA cases in December 2018, leaving only arrears cases. The Department has since been focusing on the implementation of its Compliance and Arrears Strategy. The key principles underpinning the strategy are to:

- Continue to prioritise collecting money for today's children
- Continue to encourage collaboration between parents

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

- 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 by offering a final chance at collection where this is possible at a reasonable cost to the taxpayer and represents value for money in relation to the debt value
- Avoid taxpayers funding activity that won't result in money going to children

The Strategy is now in its advanced stages, with the focus during 2019/20 being on the following areas:

- Continuing to contact parents affected and offering one last attempt to collect maintenance debt
- Writing off uncollectable arrears and moving remaining maintenance arrears to the CMS IT system
- For debt transitioned prior to the write off powers being available in December 2018, action is on-going to select cases that have not been through the representation<sup>2</sup> stages and it is expected that selection will be completed in February 2021
- The decommissioning of legacy CSA systems, planned for 2020/21, including the development of legacy data archives
- The closure of the CSA bank account during 2020/21

## 1.2 Performance during 2019/20

The CSA caseload continues to reduce. The number of CSA cases held on CSA IT systems has reduced to nil. The number of CSA cases now held on CMS IT systems has decreased from 472,700<sup>3</sup> at the end of March 2019 to 97,700 in March 2020. All cases have CSA historic arrears only, no new maintenance was charged against remaining 1993 and 2003 scheme cases.

Following the implementation of the Compliance and Arrears Strategy, 228,600<sup>4</sup> cases have started the parent with care representation process by March 2020.

- 9,700 cases (4%) are pending issuing the letter to start the representation process
- In 6,300 cases (3%) the Department were unable to trace the parent with care
- In 2,900 case (1%) the non-resident parent was deceased
- In 209,700 (92%) cases the Department have written to the parent with care, of which:
  - In 163,100 (78%) cases parents have either told us that they do not want us to collect the debt, or have not responded to the letter within 60 days of the first letter being issued
  - In 27,700 (13%) cases parents have asked us to attempt collection of the debt owed. We expect this proportion to rise as more cases progress through the parent with care representation process and reach the time limit to respond
  - 17,800 (8%) are still within the time limit to reply

<sup>2</sup> The process whereby client with outstanding debt inform the Department that they would like CMS to try and collect the debt. This is called 'making representation'.

<sup>3</sup> <https://www.gov.uk/government/statistics/child-support-agency-quarterly-summary-of-statistics-march-2020-experimental>

<sup>4</sup> Numbers and percentages do not sum due to rounding in published QSS stats

- In 800 (<1%) cases we were unable to trace the parent with care after the letter was issued

Up to the end of March 2020, 556,100 cases with non-paying historical debt have had their debt adjusted or written off since the commencement of the Compliance and Arrears Strategy. Adjustments occur as a result of corrections to the information held on the Information Technology system; adjustments are not write offs enabled by Regulations. Of these 556,100 cases: 104,900 were cases where amounts were owed to government, 275,400 were cases with amounts owed to parents which would not be subject to representation and a further 175,800 were cases eligible for representation.

As a result of the Compliance and Arrears Strategy, the CSA historic debt balance continues to reduce. This year, the value of CSA arrears held on CSA or CMS IT systems has decreased by £1,637 million - from £2,177 million in March 2019 to £540 million in March 2020. Debt owed to government and debt for which there is no reasonable chance of collection is being written off, and will continue to be written off in 2020/21. In previous years we have reported on the number of children benefiting from child maintenance and the amount of child maintenance collected and arranged, however these measures are no longer meaningful because all liabilities have now been ended on the 1993 and 2003 schemes.

## 1.3 Receipts and payments of child maintenance

All receipts and payments made in 2019/20 were in relation to outstanding maintenance arrears rather than on-going maintenance, as all live on-going maintenance cases had closed as part of the 1993 and 2003 scheme Case Closure programme.

### 1.3.1 Receipts of child maintenance

Total receipts during 2019/20 were 19% lower than 2018/19 at £45.6 million (2018/19: £56.2 million) reflecting the closure of active cases and collection of arrears only. Of these receipts, 97% by volume (2018/19: 98%) and 92% by value (2018/19: 92%) were received electronically.

### 1.3.2 Payments of child maintenance

During 2019/20 payments were £45.3 million, a reduction of 25% to 2018/19 (2018/19, £60.5 million). All payments to clients by value and volume were made by funds transferred electronically directly to clients' bank accounts.

Total net payments to the Secretary of State fell by £3.1 million (63%) - from £4.9 million to £1.8 million. Only amounts relating to arrears are payable to the Secretary of State as the legislation linking child maintenance payments to the benefit system was repealed in 2008. Any money received which relates to a period when the parent with care was in receipt of benefits continues to be retained by the Secretary of State.

Maintenance monies received are paid to parents with care as quickly as possible, and cash held at 31 March 2020 equated to around 15% (31 March 2019 11%) of the funds received during the year. All payments are made by BACS transfer.

There are a very small number of receipts that 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. The value of this surplus in 2019/20 was £0.08m.

## 1.4 Outstanding arrears of child maintenance

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

Outstanding child maintenance arrears totalled £540 million at 31 March 2020 (a decrease of £1,637 million on 1993 and 2003 scheme arrears at 31 March 2019 of £2,177 million), and were owed by non-resident parents to their respective parent with care and/or to the Secretary of State.

The remaining £540 million arrears owing have accumulated over the last 27 years and the Department is continuing to address these through the Compliance and Arrears strategy.

The decrease in arrears through 2019/20 is due to the actions taken by Child Maintenance Group (CMG) to write off uncollectable arrears, collect maintenance payments from non-resident parents and to update or cleanse the debt information held on all systems so that the value held is recorded correctly.

Debt cleansing was required because of numerous issues over the lifetime of the legacy systems that resulted in a number of occasions where correct processing through business as usual processes was not possible.

Where this occurred the correct debt balances were processed off line using either a partially or fully clerical process. During this, the case remained on system but manual actions were performed to ensure only the correct balances were processed. This ensured client receipts, payments and balances were correct.

However, managing these manually did not remove the system transactions which were no longer valid. Debt cleansing functionality was introduced, which was designed to remove these invalid transactions.

## 1.5 Collectability

Although the level of reported arrears is decreasing, they are still significant in value. The Department considers the collectability of this debt to be a meaningful measure, aiding the readers understanding of the Department's ability to collect this debt.

The arrears for the 1993 and 2003 schemes are no longer housed on the CSA legacy systems so it has been necessary to change the Department's approach to assessing the collectability of reported arrears this year.

During 2019/20, the Department commissioned Indesser, a private business, jointly owned by the government and TDX Group, to conduct collectability checks on representation cases where the Department's administrative collection processes had been exhausted. The bespoke collectability check provides the Department with a likelihood to pay ranking of 1) very low, 2) low, 3) medium, 4) high and 5) very high, and is based on a number of segmentation factors such as residency and financial vulnerability. Cases may be categorised as 'Not Traced' in instances where no credit reference data could be found for a client.

A sample of 2,686 cases were analysed by Indesser and categorised according to likelihood to pay. These findings have been extrapolated and applied to the population of cases to provide an indication of collectability across all outstanding legacy arrears.

Definition	Extrapolated debt at 31 March 20 (£m)	Extrapolated debt at 31 March 20 (%age)
Not traced	2.6	0.5%
Very Low	143.9	26.7%
Low	92.6	17.2%
Medium	113.7	21.1%
High	86.0	15.9%
Very High	101.1	18.7%
<b>Total</b>	<b>539.9</b>	<b>100%</b>

Any debt classified by Indesser as having a ‘Very Low’ likelihood of being collected is being written off by the Department following completion of the representation process. Debt classified as High or Very High is deemed to be collectable, and will proceed to enforcement. The Department is currently assessing options for the treatment of debt in the remaining categories.

In line with the Public Consultation document mentioned in the foreword the Department is continuing to approach parents with care regarding arrears dated back to 1993. The Department does this by giving parents an opportunity to say if they want the Department to try to collect their debt one last time, where it is cost effective to do so.

Since March 2020 the Department has seen an increase in the number of benefit applications being made. A significant number of paying parents who have never paid maintenance before have made contact with the Department and started to make payments through deductions from their benefits. This has increased the rate of compliance, although the average value of collection has also reduced as a result of lower income levels.

**Peter Schofield**  
Principal Accounting Officer

**Date: 10 December 2020**

# Statement of Accounting Officer's responsibilities

# 2

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 comply with the requirements of the Government Financial Reporting Manual, and in particular 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
- prepare the accounts on a going concern basis

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

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

**Peter Schofield**  
Principal Accounting Officer

**Date: 10 December 2020**

# Governance Statement

# 3

## 1 Introduction

- 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 and the Secretary of State, and accumulated maintenance arrears. The Department operates through the CSA for the 1993 and 2003 schemes, part of the CMG.
- 1.2 In accordance with 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.
- 1.3 The governance arrangements set out in the Departmental Resource Account for year ended 31 March 2020 relate to the CMG as part of the Department.
- 1.4 This statement covers topics that are specific to the CMG operation within the Department with particular emphasis on the significant control challenges identified in relation to child maintenance.
- 1.5 The control weaknesses of the systems underpinning the 1993 and 2003 statutory schemes are a result of the limitations of the Information Technology systems, which have led to successive qualifications by the Comptroller and Auditor General. This statement records the action that the Department has taken to manage these control weaknesses.

## 2 Significant control challenges

### 2.1 Incorrect maintenance assessments

- 2.1.1 Since 2013, all new maintenance assessments have been carried out by the CMS. However, assessment accuracy remains an issue for the 1993 and 2003 schemes and it is central to the modified audit opinions on the Client Funds Account. This is due to historic inaccuracies in maintenance assessments along with incorrect technical adjustments, and their impact on reported 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.

2.1.2 There were no maintenance assessments calculated in 2019/20 as all ongoing maintenance liabilities had ended on these schemes.

## 2.2 System and transaction controls

2.2.1 During 2019/20, the Department continued to utilise the 1993 and 2003 child maintenance systems to ensure efficient processing of receipts and payments, however, some transactional processing is handled by small systems outside of the main IT systems. There is a control challenge to ensure these small systems remain compatible with system and process changes arising from activities to close all legacy scheme cases.

2.2.2 One of these small systems improved the accuracy and efficiency of receipts and payment processing. This system evolved as the Case Closure programme volumes increased and receipts paid into 1993 and 2003 systems needed to be transferred to 2012 system. Further changes will be needed as the Case Closure programme progresses to automatically direct receipts to the 2012 system to enable the close down of legacy scheme bank accounts.

2.2.3 A second small system is used to maintain financial control of cases moving from legacy schemes to the CMS 2012 system, this ensures maintenance arrears balances transferring between systems are reconciled on a daily basis.

2.2.4 The maintenance arrears note has been prepared using a suite of reports developed as a result of weaknesses in the information on outstanding levels of maintenance arrears. See note 5 for further details. Moving cases to the 2012 IT system is the main way in which CMG addressed this challenge to provide case based accounts automatically through the system.

## 2.3 Information security

2.3.1 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 system introduced to manage the 1993 scheme is not security accredited, and given its expected limited life there are no plans to pursue accreditation.

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

[http://ec.europa.eu/newsroom/article29/item-detail.cfm?item\\_id=612052](http://ec.europa.eu/newsroom/article29/item-detail.cfm?item_id=612052)

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

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

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



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

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

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

## **2.4 Case closure programme**

- 2.4.1** The Case Closure programme began in 2014 including processes to contact all 1993 and 2003 system clients advising them their liabilities would be ending. Liabilities were ended on the last cases in December 2018.
- 2.4.2** All remaining cases have transferred to CMS, as the legacy systems have closed, although some of these cases will end up with their arrears being written off because the parent with care will choose not to pursue through the representation process.
- 2.4.3** During the reporting year to 31 March 2020, £89.4 million had transferred to the 2012 system (2018/19: £275.4 million) and all cases to be transitioned have now done so.

## **2.5 The Child Maintenance Compliance and Arrears Strategy**

- 2.5.1** We have already noted our approach to tackling historic arrears in paragraph 1.1 Management Commentary. As part of this strategy, Ministers also decided, with agreement from Treasury, that the Department could write off CSA debt owed to the Secretary of State which was non-paying in the last 90 days. Functionality was introduced into the Department's IT systems and this work commenced at the end of July 2018.
- 2.5.2** The CMG Compliance and Arrears Programme introduced automated functionality on 23 July 2018 to close Nil debt cases, Negative debt cases, Maintenance Direct cases and non-paying Secretary of State debt cases.
- 2.5.3** The Programme received Parliamentary approval on the 14 December 2018 to write off further CSA arrears that are owed to the parent with care where the case is non-paying. The parent with care cases with a value of under £65 were included in the automated functionality to close and write off their debt. Cases with a debt value greater than £65, but below the thresholds set by Parliament<sup>5</sup>, dependant on the age of the case, receive a letter when the debt is removed from the CSA systems. Cases with a debt value greater than the value set by Parliament receive a letter enabling them to make a representation before the debt is written off. These activities have been completed for cases on CSA

<sup>5</sup> <https://www.gov.uk/government/publications/child-maintenance-compliance-and-arrears-strategy-2018/child-support-agency-information-for-parents-with-historical-debt>

systems and a plan is in place to complete the selection of those cases on CMS by February 2021.

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

# 4

## THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

### Opinion on accounts

I certify that I have audited the Client Funds 1993 and 2003 schemes Account for the year ended 31 March 2020 under the Government Resources and Accounts Act 2000. The accounts comprise: the Receipts and Payments Statement, the Statement of Balances, Note 5 'Outstanding Maintenance Arrears' and the related notes. These accounts have been prepared under the accounting policies set out within them.

In my opinion

- because of the significance of the matters discussed in the Basis for Adverse Opinion section below, the accompanying accounts do not properly present the receipts, payments, balances and arrears of the Client Funds 1993 and 2003 scheme Account, in accordance with the HM Treasury account direction; and
- the accounts have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### Basis for Adverse Opinion

In my opinion, Note 5 to the accounts does not properly present the outstanding maintenance arrears as at 31 March 2020.

The individual arrears balances that make up the reported outstanding arrears balance and the balance in total are misstated as a result of a number of factors, not all of which can be reliably quantified, but which in combination indicate a material level of misstatement in the arrears balance.

There are no Child Maintenance cases under the 1993 and 2003 child maintenance schemes with continuing maintenance assessments, so the arrears balances are considered the substantial proportion of the accounts driving all receipts and payments going forward. For that reason, I consider the material error within the arrears balance to be pervasive to the accounts.

### **Qualified opinion on regularity**

In my opinion, except for the over and underpayments relating to errors in historic maintenance assessments described in the basis for qualified opinion on regularity as a result of transactions not conforming with legislation, in all material respects the receipts and payments recorded in the accounts have been applied to the purposes intended by Parliament and the financial transactions recorded in the accounts conform to the authorities which govern them.

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

Some 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 £46 million are shown in the Client Funds 1993 and 2003 schemes Account. As there are no active maintenance assessments relating to the 1993 and 2003 schemes, my assessment of irregularity in these transactions is based on previous estimates of error. Errors in underlying maintenance assessments have resulted in material levels of irregularity being identified in our audit since the inception of these schemes. The Department is not reviewing and correcting previously materially incorrect assessments on individual cases, and therefore the level of irregularity in these transactions remains material. I have again qualified my regularity opinion.

### **Basis of opinions**

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

### **Conclusions relating to going concern**

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

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

## **Responsibilities of the Accounting Officer for the accounts**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer of the Department is responsible for the preparation of the accounts and for being satisfied that they properly present the receipts and payments of the Client Funds 1993 and 2003 schemes Account for the year ended 31 March 2020, the cash balances held as at 31 March 2020 and the outstanding maintenance arrears as at 31 March 2020.

## **Auditor's responsibilities for the audit of the accounts**

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

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

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

- identify and assess the risks of material misstatement of the accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the accounts, including the disclosures, and whether the accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Department's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the accounts or, if such disclosures are

inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Department to cease to continue as a going concern.

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

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

### **Other Information**

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

### **Opinion on other matters**

In my opinion:

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

### **Matters on which I report by exception**

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the account is not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or

- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## **Report**

Further details of my modified opinions are provided in my report on pages 20 to 26.

**Gareth Davies**  
**Comptroller and Auditor General**

**Date: 11 December 2020**

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

# 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. The Child Support Agency (CSA) 1993 and 2003 schemes, and the Child Maintenance Service (CMS) 2012 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 Child Maintenance Client Funds 1993 and 2003 schemes Account (the Account) and my qualified opinions on that Account. It also considers the Department's progress in its management and closure of cases on these schemes. I have provided a separate report and certificate on the Child Maintenance Client Funds 2012 Scheme Account (HC 1033)<sup>6</sup>.

## Key findings

**3 The Department for Work and Pensions (the Department) has not managed 1993 and 2003 child maintenance schemes cases with sufficient accuracy.** I have therefore qualified my opinions on the Account due to errors in arrears balances and in historic maintenance assessments. Specifically:

- **I have issued an adverse opinion as the £540 million arrears balance reported in Note 5 does not properly present unpaid maintenance.** There are two significant causes of error in the reported arrears balance. Individual arrears on cases are misstated due to errors in the underlying assessment calculations. The Department also makes adjustments to the arrears balance in preparing this Account, and these adjustments include further error (paragraphs 9 to 11).
- **I have qualified my regularity opinion due to errors in maintenance assessments.** Where assessment calculations were inaccurate, the associated receipts and payments do not conform to scheme rules and are irregular. There are no active maintenance assessments relating to the 1993 and 2003 schemes, so my assessment of irregularity in this balance is based on historic levels. Errors in underlying maintenance assessments have resulted in material levels of irregularity being identified in our audit since the inception of these schemes. The Department is not reviewing and correcting previous incorrect assessments on individual cases,

<sup>6</sup> <https://www.gov.uk/government/collections/child-maintenance-client-funds-accounts>



and therefore the level of irregularity in this balance remains material (paragraphs 12 to 14).

**4 The Department has reduced the arrears balance by £1,637 million from £2,177 million at the end of 2018-19 to £540 million at the end of 2019-20.** The Department has closed all active cases and is working to reduce the remaining arrears balance by writing-off, cleansing, or collecting the debt in line with the Department's Compliance and Arrears Strategy<sup>7</sup>. The £1,637 million reduction in 2019-20 includes:

- **£1,204 million that the Department has written-off using new powers.** This reduction relates to 313,745 cases<sup>8</sup> where arrears have been written off using new powers that came into force in 2018, either as they were below a statutory level, where parents agreed to write off, or where parents could not be traced (paragraph 17).
- **£345 million where the Department has cleansed the data in its IT systems.** The Department closed its 1993 and 2003 IT systems in 2020 and moved the balances to the 2012 scheme IT system. While doing so, it reviewed the balances held in the system to ensure only genuine arrears were transferred. It found £321 million of invalid arrears that were a result of historic IT system issues and incorrect arrears adjustments over the lifetime of the schemes. It also identified a net £24 million of adjustments required due to historic reporting issues (paragraph 18).
- **£39 million of arrears the Department has collected to be paid onto parents with care<sup>9</sup>** (paragraph 19).

**5 As the Department is not taking action to correct past errors, I anticipate that I will continue to qualify the 1993 and 2003 Scheme Accounts in future.** Without action the balance reported in the 1993 and 2003 Scheme Account will continue to not properly present the outstanding maintenance arrears balance, and receipts and payments will remain materially irregular. In addition, the Department faces challenges in allocating maintenance collected to Accounts and cases, to report accurately. This is further compounded by the impact of COVID-19 and the Department's responses to increased benefits demand. The Department also continues to assess the efficacy and impact of its new collection powers to inform its reporting on the collectability of these arrears (paragraphs 20 to 24).

## Recommendations

**6** The issues that have led to qualified opinions on past Accounts have not been sufficiently addressed in the course of case closure. I continue to receive correspondence from parents on the operation of the child maintenance schemes and the customer service they receive. I will be undertaking further work during 2021 to review progress in closing the 1993 and 2003 schemes, and the operation of the 2012 scheme.

**7** For the 1993 and 2003 schemes, the Department should continue to review the

<sup>7</sup> <https://www.gov.uk/government/publications/child-maintenance-compliance-and-arrears-strategy-2018>

<sup>8</sup> This figure is different to the 556,100 cases quoted in section 1.2 of the accounts which looks at cases over the life of the Compliance and Arrears Strategy whereas the 313,745 cases reported here only includes 2019-20 write offs

<sup>9</sup> Total receipts in year were £45.6m however, due to timing difference between receipt, assignment and allocation only £39m of these receipts were allocated to arrears cases in 2019-20

service it is providing to parents and ensure that it:

- maintains adequate records and has a clear process to support parents who are concerned that arrears balances now being collected are inaccurate;
- understands the impact of COVID-19 and the changes it has made as a result of COVID-19 on the schemes and cases, and that it takes appropriate action should these be detrimental to the schemes, cases or parents; and
- allocates sufficient resource to provide appropriate customer service and timely responses to queries and complaints.

**8** To enhance accountability and reporting, the Department should:

- take steps to ensure maintenance collected can be allocated to schemes and cases, to support accurate reporting and prompt payment to parents with care; and
- continue to review its assessment of collectability of arrears relating to the 1993 and 2003 Schemes in light of experience to date and report its assessment of collectability transparently in the 1993 and 2003 schemes Account.

## Adverse opinion

**9** The Department assesses maintenance to be paid by the parent who does not live with their child or 'non-resident parent', to the 'parent with care'. Where a non-resident parent fails to pay maintenance in accordance with their child maintenance assessment, the Department records this in the 'outstanding maintenance arrears' balance and reports it in Note 5 of the Account. The balance of £540 million as at 31 March 2020 is the recorded cumulative total of outstanding maintenance arrears on 1993 and 2003 scheme cases 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<sup>10</sup>.

**10** As the independent external auditor, I am required to give an opinion on whether the Account, including the outstanding maintenance arrears balance as at 31 March 2020, is properly presented. In my opinion there is material error in the value of arrears recorded in Note 5 to the Account, and therefore the outstanding maintenance arrears balance does not properly present the balance outstanding at 31 March 2020. I consider that the outstanding maintenance arrears balance is materially misstated due to:

- **Incorrect adjustments to arrears balances over many years**

Adjustments have been applied to the arrears balance as part of preparing this Account and past Accounts. I have previously estimated that these adjustments have led to material error in the arrears balance. Although the Department has made some adjustments during 2019-20 to correct erroneous arrears balances (paragraph 18), I consider that the Arrears Note (Note 5) remains materially misstated as a result of these past incorrect adjustments.

- **Incorrect maintenance assessments**

<sup>10</sup> In some 1993 and 2003 scheme cases, where parents with care have received benefits before 2008, the funds are retained by the Secretary of State in lieu of benefit paid.

The Department is unable to provide sufficient data to quantify the impact of its past incorrect maintenance assessments on the remaining arrears balance. 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 specific action has been taken to correct these assessments, I consider there remains a material level of error in arrears balances as a result of past incorrect maintenance assessments.

**11** As there are no longer active Child Maintenance cases under the 1993 and 2003 child maintenance schemes, the outstanding maintenance arrears and receipts and payments relating to collection of arrears form the entirety of the Account. For that reason, I consider the material error within the arrears balance to be pervasive to the accounts and have issued an adverse opinion on the Account.

## Qualified opinion due to irregular receipts and payments

**12** I am also required to give an opinion on whether, in all material respects, the transactions comprising the receipts and payments within the Account have been applied to the purposes intended by Parliament and conform to the authorities which govern them (the 'regularity' opinion). All receipts and payments reported in 2019-20 relate to collection of arrears. Errors in the calculations of the maintenance assessments that underpin these arrears mean that these assessments are not in accordance with the specific legislative requirements and therefore the associated receipts and payments are irregular.

**13** 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 its accuracy and thus the 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 IT systems, that has led to the significant levels of error in historic child maintenance assessment calculations.

**14** The value of receipts in the Account has fallen from £56.2 million in 2018-19 to £45.6 million in 2019-20, in line with the ending of all cases with continuing maintenance payments. As there are no active maintenance assessments relating to the 1993 and 2003 schemes, my assessment of irregularity in these transactions is based on historic estimates of error. Errors in underlying maintenance assessments have resulted in material levels of irregularity being identified in receipts and payments since the inception of these schemes. The Department is not reviewing and correcting previously materially incorrect assessments on individual cases, and therefore the level of irregularity in this balance remains material and I have again qualified my regularity opinion.

## Progress in closing 1993 and 2003 child maintenance scheme cases

**15** All assessments requiring continuing maintenance payments between parents

through the 1993 and 2003 schemes ended by 31 December 2018 and any separated parents who require support with child maintenance arrangements must now apply to the 2012 Scheme. During 2019-20 the Department has focused on reducing the remaining arrears balance by writing-off, cleansing, or collecting the debt.

**16** The Department's 2018 Compliance and Arrears Strategy sets out its plans to reduce the historic arrears on the 1993 and 2003 schemes. This strategy builds on the Child Support (Miscellaneous Amendments) Regulations 2018 that provide new options for the Department to address arrears built up on the 1993 and 2003 Schemes, and to ensure compliance and collection of newer arrears arising on the 2012 Scheme. New categories of write-offs were permitted under these Regulations in addition to the Department's limited existing powers to write-off 1993 and 2003 Schemes arrears below £65, debts owed to the Secretary of State, and debts where parents die or ask that arrears are not collected.

**17** In the two years since the Compliance and Arrears Strategy was introduced, the Department has reduced the arrears balance by £2,966 million, or 85% of the £3,506 million arrears balance at 31 March 2018, to £540 million at 31 March 2020. Of this reduction, during 2019-20, £1,204 million representing 313,745 cases was written-off under new powers.

**18** The Department has now closed the 1993 and 2003 schemes IT systems and transferred all cases with an arrears balance to the 2012 scheme IT system. In doing this, the Department undertook limited cleansing of the system data and removed a further £345 million of arrears comprising:

- **£321 million of invalid debt recorded on cases.** In order to transfer cases from the 1993 and 2003 schemes' systems, the Department identified a number of cases that could not be closed due to an invalid debt balance. The main cause of this issue was actions applied incorrectly that left cases still showing an arrears balance where they should have been cleared. This system cleansing work reduced the arrears balance.
- **£24 million of incorrectly reported balances.** Once all cases had been transferred to the 2012 scheme IT system, the Department identified a residual reported balance on the 1993 and 2003 scheme IT systems which did not represent valid debt. A further net £24 million (£45 million gross) balancing adjustment has been required to the arrears note to remove arrears previously incorrectly reported in the arrears opening balance. Despite this work, the Department has not been able to demonstrate that this corrects all cases impacted by such issues.

**19** The Department is also using its existing powers, as part of its Compliance and Arrears Strategy, to enforce compliance with assessments, such as preventing non-paying parents from holding or obtaining a UK passport for a maximum period of 2 years, and removal of passports for non-paying parents. It is also using new powers included in the 2018 Regulations to enforce compliance. During 2019-20, £39 million of unpaid maintenance arrears was collected from non-resident parents with cases under the 1993 and 2003 schemes (£37 million during 2018-19).

## The future of the 1993 and 2003 schemes

**20** As arrears balances will not be recalculated as part of case closure and write-off

procedures, I anticipate that I will continue to consider that the balance reported in the 1993 and 2003 Scheme Account does not properly present the outstanding maintenance arrears balance due to historic incorrect maintenance assessments and adjustments. In the absence of any action to correct past maintenance assessment errors that underpin arrears balances, I anticipate that I will continue to view receipts and payments as materially irregular and to qualify the Account in future years.

**21** COVID-19 has led to operational changes in the Department to allow for the prioritisation of benefit processing that have affected customer service. For the 2012 scheme, the Department amended the reporting and processing of income changes and restricted the types of changes that could be made over the telephone. Across all schemes, 1,440 staff were reallocated from child maintenance to higher priority work. Due to changes in the availability of court dates, the Department also paused enforcement activity on all its child maintenance schemes. It has not yet evaluated the impact of these changes on child maintenance operations.

**22** Child Maintenance cases continue to generate a significant volume of the correspondence received by the NAO. Correspondents raise concerns about inaccurate assessments and arrears and the customer service received from the Department when parents query assessments or arrears, before the impact of COVID-19. The current policy that arrears will not be cleansed and corrected as part of the 1993 and 2003 case closure programme creates a risk that parents will be pursued for collection of incorrect arrears. I will undertake further work on case closure during 2021.

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

**24** Due to limitations in reporting on the 2012 computer system, it has not been possible for the Department to analyse the collectability of the arrears on the 1993 and 2003 schemes in the same way as previous years. As set out in the foreword to the Account at section 1.5, the Department has instead used data from an exercise completed by Indesser to assess collectability. This shows that £187 million of the £540 million arrears balance at 31 March 2020 is considered to be collectable (defined as having a high or very high chance of collection). The Department should continue to review the effectiveness of its new collection powers as it gains more experience of applying them, and use this experience to inform its assessment and reporting of the collectability of these arrears in future Accounts.

**Gareth Davies**

Comptroller and Auditor General  
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**Date: 11 December 2020**

# Receipts and Payments Statement for the year ended 31 March 2020

# 6

	Notes	2019/20 £000s	2018/19 £000s
Receipts	2	45,620	56,249
Bank Interest	3	-	-
<b>Total Receipts</b>		<b>45,620</b>	<b>56,249</b>
<b>Less payments to:</b>			
Persons with Care	2	43,441	54,708
Secretary of State	2	1,773	4,899
Non-resident Parents/Employers	2	40	855
Department in respect of fees	2	0	5
<b>Total Payments</b>		<b>45,254</b>	<b>60,467</b>
<b>Net receipts/(payments)</b>		<b>366</b>	<b>(4,218)</b>
<b>Balance as at 1 April</b>		<b>6,516</b>	<b>10,734</b>
<b>Balance as at 31 March</b>		<b>6,882</b>	<b>6,516</b>

# Statement of Balances as at 31 March 2020

# 7

	Notes	31 March 2020 £000s	31 March 2019 £000s
Opening balance		6,516	10,734
Movement		366	(4,218)
Closing cash balance	3	<u>6,882</u>	<u>6,516</u>



# Notes to the account for the year ended 31 March 2020

# 8

## 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 the amounts owed by non-resident parents as at 31 March 2020, 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 monies collected from non-resident parents by the Department, and include:

- child maintenance, for payment to parents with care. For 2019/20 these relate to maintenance arrears only as there are no live 1993 and 2003 scheme on-going maintenance cases
- fees, for payment to the Secretary of State (where pre-2008 maintenance offsets benefits paid to the parent with care)
- other amounts due to the Department, e.g. for DNA test fees and court costs

The receipts quoted in the Receipts and Payments Statement (chapter 6) differ from the total receipts shown in the movements in the Outstanding Maintenance Arrears note (Note 5).

This is principally due to timing differences (e.g. uncleared funds, or receipts in the bank that have not yet been allocated to a case), but also the inclusion of non-maintenance receipts (e.g. DNA test fees and court costs) 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. Such payments are treated as losses in the Department's Annual Report and Accounts. The reported value in 2019/20 is nil and in 2018/19 was nil.

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

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

Included in the £43.4 million (2018/19, £54.7 million) paid to the parent with care is £93k (2018/19, £5k) transferred from Northern Ireland's Child Maintenance Service to fund payments made by the Department on NI CMS's behalf. The increase from 2018/19 is due to the change in the handling of receipts while Legacy systems are closed.

The payments to the Secretary of State of £1.8 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 retained by the Secretary of State.

Other payment categories relate to refunds/reimbursements to non-resident parents and employers for overpayments of maintenance, totalling £40k in 2019/20 (2018/19, £0.9 million). No payments were made to the Department in respect of fees for DNA tests and court costs in 2019/20 (2018/19, £5k).

### 3 Statement of balances

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

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

However, as highlighted in Note 2, we are unable to fully analyse each receipt held at year end and as such, an element of the bank statement must be estimated.

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

The cash balance included in the 1993 and 2003 scheme accounts whilst held in the CMS bank account is therefore £1.2 million (£0.3 million directly attributed and £0.9

million apportioned based on annual receipts) which forms part of the £6.9 million disclosed in the Statement of Balances.

## 4 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, and the movements in the balances outstanding between the beginning and end of the year.

The Department published on 12 July 2018 its new Compliance and Arrears Strategy. Regulations to support the new strategy came into force in December 2018 enabling debt to be written off once we have exhausted our enforcement options and have been unable to collect the debt, in which case we will notify both clients. This has allowed us to close the remaining cases on CSA systems and plan for the decommissioning of these systems during 2020/21.

## 5 Outstanding maintenance arrears at 31 March 2020

The following table details movements between the opening and closing unpaid maintenance balances:

	CSCS £000s	CS2 £000s	CMS £000s	Total £000s
Outstanding Maintenance Arrears as at March 2019 (Note a))	653,316	827,291	696,854	2,177,461
Write Off (Note 5.1(i))	(565,265)	(480,387)	(195,241)	(1,240,893)
Adjustments in Year (Note 5.1(ii))	(59,895)	(52,932)	75,914	(36,913)
Debt cleansing (Note 5.1(iii))	(27,394)	(293,594)	-	(320,988)
Maintenance Received in the year (Note 5.1(iv))	(762)	(378)	(37,581)	(38,721)
<b>Outstanding Maintenance Arrears at 31 March 2020 (Note 5.1(v))</b>	<b>0.00</b>	<b>0.00</b>	<b>539,946</b>	<b>539,946</b>

Note a)

The format of this note reports by system rather than scheme basis. 1993 and 2003 scheme arrears of £539.9 million at 31 March 2020 (£696.9 million, 31 March 2019) are hosted on the CMS (2012) system and are reported in the table above.

### 5.1 Movements in outstanding maintenance arrears

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

(i) Write Off

Under the powers introduced as part of the Compliance and Arrears Strategy, and in addition to the Write Off and Part Payment legislation introduced in 2010, the Department has made adjustments to the value of arrears, with £1,241 million being written off on 1993 and 2003 scheme cases (2018/19, £942 million). £37 million was written off as 'Business as Usual', while £1,204 million is linked to the new powers of the Compliance and Arrears Strategy.

The increase from last year is a direct result of the Compliance and Arrears Strategy actions to write off arrears that were either uncollectable, or where the parent with care did not want a collection effort to be made. This will allow the Department to focus its efforts on collecting money for children who will benefit from regular on-going maintenance payments today and on collectable arrears.

(ii) Adjustments in year

This comprises: outstanding maintenance transitioned arrears transferred to and from the Northern Ireland Child Maintenance Service, and adjustments arising from cancelled or terminated assessments; where debt has transitioned to be hosted on the CMS system; 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 2019/20 was a negative value of £37 million (2018/19, negative £349 million) which is in line with the Case Closure programme to close cases on the 1993 and 2003 systems.

For this final year of CSCS and CS2 system reporting, the adjustment figures also include a £24 million balancing figure. This is due to known historic errors in arrears, which have been flagged as being materially wrong in the audit certificate and report for previous years. Work has been done to evidence that the closing arrears figures for the Legacy systems are, in fact, nil.

(iii) Debt cleansing

Debt cleansing was required because of numerous issues over the lifetime of the legacy systems that resulted in a number of occasions where correct processing through business as usual processes was not possible.

Where this occurred, the correct debt balances were processed off line using either a partially or fully clerical process. During this, the case remained on system but manual actions were performed to ensure only the correct balances were processed. This ensured client receipts, payments and balances were correct.

However, managing these manually did not remove the system transactions which were no longer valid. Debt cleansing functionality was introduced, which was designed to remove these invalid transactions.

(iv) Maintenance received during the year

This comprises amounts received from non-resident parents and the Northern Ireland Child Maintenance Service during the year. When a receipt is subsequently assigned to a case by the child support computer systems, the receipt is allocated to 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 2019/20 was £39 million (2018/19, £37 million).

(v) Outstanding maintenance arrears as at 31 March 2020

This is the balance of outstanding maintenance arrears recognised by the Department after write off of arrears and receipts of maintenance have been deducted.

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

### **Impact on Compliance & Arrears Strategy due to COVID-19**

For the Department, the main impact of COVID-19 on CMG was the pausing of both the selection of cases with CSA debt for write off/representation and of any payment chasing activities, including the collection cycle for post representation cases.

Selection restarted in June with a lower volume and is being ramped up in July, which is a delay in the handling of these cases of 3 months.

The timing of the outbreak late in the 2019/20 financial year means that the impact on maintenance recovered in the accounts is minimal. The Department expects that any impact will be more significant in the 2020/21 Client Funds Account.

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





