

Child Support Agency

Annual Report and Accounts 2006/07

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Members of the Child Support Agency Board

Name	Role	Date of appointment
Richard Arthur	Non-Executive Director	15 March 2006
John Cross	Non-Executive Director	1 July 2003
Bryan Foss	Non-Executive Director	15 March 2006
Stephen Geraghty	Chief Executive	1 April 2005
Bill Griffiths	Non-Executive Director	15 March 2006
Mark Grimshaw	Strategic Programme Director	17 January 2005
Alan Hardy	Finance and Business Assurance Director	3 April 2006
Peter Holden	Non-Executive Director	15 March 2006
Susan Jillings	Non-Executive Director	23 February 2006
Susan Park	Operations Director	3 April 2006
Ian Pavey	Human Resources Director	8 May 2006
Hilary Reynolds	Ex-officio	5 November 2006
Keith Woodhouse	Business Design Director	13 September 2006

The following people also served as members of the Child Support Agency Board during the 2006/2007 financial year:

Chris Bowman	Business Design Director (appointed 3 July 2006 until 12 September 2006)
Ron Eagle	Information System / Information Technology Director (until 20 September 2006)
Jim Edgar	Finance Director (until 2 April 2006)
Elaine Fox	Human Resources Director (until 7 May 2006)
Jonathan Portes	Ex-officio (until 9 November 2006)
Hilary Reynolds	Deputy Chief Executive and Client and Stakeholder Relationships Director (until 4 November 2006)

Where any Board Member holds company directorships or significant interests, which may conflict with management responsibilities, these are shown in the Notes to the Accounts under Note 22 Related Party Transactions.

Message from the Chief Executive

This report covers my second year as Chief Executive and the first year of our Operational Improvement Plan. The year has also seen the conclusion of the review of future Child Maintenance policy and delivery arrangements, with the publication of a White Paper on 13 December 2006 proposing the replacement of the Child Support Agency by a new non- departmental public body with new policy and enforcement powers. This led to the introduction of the Child Maintenance and Other Payments Bill currently before Parliament.

The Operational Improvement Plan was designed to improve our service to clients, increase the amount of money we collect, achieve greater compliance from non-resident parents and to provide a better platform from which to implement future policy. The plan covers three years, each with a different area of focus. In the first year we have focussed on improving the operational capacity and capability of the Child Support Agency, while making significant improvements to customer service. We invested heavily in training, redeployed significant numbers of people to customer service from support functions, recruited additional people and outsourced some activity. As a result of this we achieved and exceeded our client service targets for the year and made significant progress towards the targets for the end of the three year plan in 2009. The progress we have made and the targets for years two and three of the plan are shown in the following table:

Client Service - Five Year Performance Trends

Performance Measure	2005 Actual	2006 Actual	2007 Actual	2008 Target	2009 Plan
Application clearance Percentage of new scheme applications cleared by 31 March within:					
- 12 weeks (Dec intake)	30%	53%	61%	65%	80%
- 18 weeks (Oct intake)	36%	61%	63%	80%	85%
- 26 weeks (Sep intake)	46%	67%	78%	85%	90%
Uncleared new scheme applications at 31 March	225,900	220,800	156,000	140,000	90,000
Telephony Average answer time from queue over the year	1 min 40 seconds	59 seconds	26 seconds	Less than 30 seconds	Less than 30 seconds
Percentage of lost calls in year to 31 March	16%	9%	3%	Less than 5%	Less than 5%

While these improvements in service levels are important and welcome, and are reflected in falling – though still high – numbers of complaints, the real test for the Child Support Agency is the difference we make for children by collecting or arranging maintenance. Having established a platform of improved service, the focus for the next year of the plan, the year to March 2008, is therefore enforcement. We will also upgrade our computer systems to improve productivity so we can reduce our headcount in line with the Gershon efficiency challenge faced by the Department for Work and Pensions as a whole. As the table below shows we have had some success in increasing the numbers of families and children receiving maintenance over the last two years. This has been largely through reducing the numbers of uncleared applications and so increasing the number of non-resident parents assessed to pay maintenance. The proportion of non-resident parents who, once assessed to pay, do so has increased only moderately and this, together with outstanding arrears, will be the area on which we focus our performance improvement efforts in the coming year.

Maintenance Outcomes - Five Year Performance Trends

Performance Measure	2005 Actual	2006 Actual	2007 Actual	2008 Target	2009 Plan
Number of children benefiting Quarter ending 31 March	537,000	591,000	635,000	720,000	790,000
Cases in receipt of maintenance 'Maintenance Direct' or collection service Quarter ending 31 March	385,000	429,000	466,000	520,000	579,000
Maintenance Outcomes Percentage of cases with a current liability receiving maintenance in the Quarter ending 31 March	59%	59%	61%	66%	69%
Maintenance collected or arranged Year ending 31 March	£794 m	£828 m	£883 m	£970 m	£1,080 m

In recent months the introduction of the Child Maintenance and Other Payments Bill has reduced the uncertainty about the future and while the closure of the Child Support Agency and the transition to the Child Maintenance and Enforcement Commission will bring its own challenges, the work we are doing to improve our performance will provide a better foundation on which the Child Maintenance and Enforcement Commission can build.

There is still much to do to improve the Child Support Agency and the problems of historic, uncollected maintenance remain, but we have established an improving trend which is already securing more money for more children. I would like to thank all of my colleagues for their commitment and efforts and to congratulate them on what has been achieved.

Signed

A handwritten signature in blue ink, appearing to read 'S. Geraghty', written in a cursive style.

Stephen Geraghty

Chief Executive

10 July 2007

Child Support Agency - Part of the Department for Work and Pensions

The Child Support Agency is part of the Department for Work and Pensions.

The Department for Work and Pensions delivers the Government's welfare reform objectives. To ensure the policies required to achieve these objectives are successful, the Department for Work and Pensions has a number of 'Public Service Agreements', which set out the specific targets that must be met in return for the resources provided through the Government's 'Spending Review'.

One of the strategic objectives is to make sure all children have the best possible start in life by eradicating child poverty by 2020.

The Child Support Agency contributes to this objective by ensuring that parents who do not live with their children continue to meet their financial responsibilities by paying child maintenance. The Secretary of State sets performance targets for the Child Support Agency and the Child Support Agency has published a 'Client Charter' which sets out the service standards that our clients can expect.

The Child Support Agency currently employs 11,040 people (full time equivalent position at March 2007), with additional people employed by the Department for Social Development Northern Ireland and our contractor who provides our clerical case services, who both carry out work for the Child Support Agency. We work from seven main sites, with a network of smaller sites across England, Scotland and Wales. Our main offices are in:

Dudley
Hastings
Falkirk
Plymouth
Birkenhead
Belfast
Newcastle

At 31 March 2007 the open caseload of the Child Support Agency was 1.36 million, with 596,000 cases operating on the new scheme and 765,000 cases on the old scheme.

Our role

We support parents in taking responsibility for their children by:

- tracing the parent who no longer lives with their children (the non-resident parent) in cases where the parent residing with the children (the parent with care) wants support in seeking maintenance, or is required by benefits rules to seek such support
- working out how much child maintenance should be paid by the non-resident parent to help meet their child's everyday living costs
- in some cases, handling the payments from the non-resident parent to the parent with care, and monitoring these payments and taking appropriate enforcement action where payments are late or missed.

Our main activities

We:

- contact parents with care and non-resident parents
- discuss and explain the amount of child maintenance to be paid with non-resident parents and parents with care
- take action to resolve paternity disputes in accordance with child maintenance law
- arrange suitable methods of payment, and
- ensure that a pattern of regular payments is established.

We also continue to maintain child maintenance arrangements by:

- keeping calculations up-to-date when a change is reported
- monitoring payments and discussing late payments with both parents, and
- taking action where necessary to re-establish payment and recover arrears.

Improving delivery of our services

In February 2006 we launched our Operational Improvement Plan to:

- improve our service to clients
- increase the amount of money we collect
- achieve greater compliance from non-resident parents, and
- provide a better platform from which to implement evolving policy in the future.

The Operational Improvement Plan is designed to deliver performance improvements over three years. Each year has a different focus:

First year: Preparation and Client Service

- reviewing our processes and reorganising the way we operate around our clients
- training our people and developing our culture
- improving the service we offer, particularly for new applications

Second year: Productivity and Enforcement

- implementing major computer system enhancements to improve our productivity
- further improving our client experience
- focusing on collections and enforcement

Third year: Performance

- delivering our commitments

The Child Support Agency values

The Child Support Agency has developed a set of organisational values and a 'Leadership Framework', which are designed to support people within the Child Support Agency in their delivery of our Operational Improvement Plan. The values are:

- Client Focus
- Firm and Fair
- Open and Honest
- Professional

In 2006/07, managers took part in an 'Inspirational Leadership Programme' to launch our values and the 'Leadership Framework'. The programme was designed to provide our managers with the knowledge and tools to lead their people effectively through the change programme and support achievement of our vision to make more difference for more children.

Operational improvements across the Child Support Agency are underpinned by cultural change plans, which support managers and people to implement new ways of working. As the culture change programme accelerates during 2007/08, we will continue to listen to feedback from our clients and our people to measure the success of the change programme.

Management Commentary

Development and performance of the Child Support Agency during the year

The Child Support Agency as part of the Department for Work and Pensions receives its funding through the Government's 'Spending Review' settlement.

The funding of the Department for Work and Pensions from the 2004 'Spending Review' was announced to Parliament by the Chancellor in the summer of 2004. The 'Spending Review' settlement provided funding for the three years 2005/06 to 2007/08.

The purpose of the three year settlement is to give Government departments the flexibility to plan ahead and remove the constraints of year to year planning. It allows them to carry forward under/over-spends from year to year within the spending review period.

Net operating cost shown in the financial statements for the Administration Account is £520 million (2005/06, £465 million). This included funding for the Operational Improvement Plan.

Performance commentary - the main performance points for the year ended March 2007 are:

In the first year of the Operational Improvement Plan we have concentrated on building the Child Support Agency's capacity and capability. While doing this we have also achieved a significant and positive change in the Child Support Agency's performance, ahead of the expected benefits to be realised under the three year plan.

This provides a solid foundation on which to deliver the second year of the Operational Improvement Plan.

In response to the recommendations of the Parliamentary Work and Pensions Select Committee, improvements have been made to the Child Support Agency's management information in respect of both old and new scheme cases. The Child Support Agency's Quarterly Summary of Statistics is a National Statistics publication which provides a comprehensive analysis of Child Support Agency performance. All statistics used in this Management Commentary are based on this data, which may result in some variance from the figures published in the Child Support Agency Annual Report and Accounts 2005/06. Volumes are rounded to the nearest hundred and percentages to the nearest whole percent.

Performance highlights to the end of March 2007 include:

- More money to more children - 44,000 more children were in receipt of maintenance or had a 'Maintenance Direct' arrangement in place. A total of 635,000 children are therefore now benefiting from the payment of maintenance.
- A higher proportion of non-resident parents is paying or using 'Maintenance Direct' - 61 per cent of cases with a liability made a payment or arranged 'Maintenance Direct', up from 59 per cent last year.
- A reduction in uncleared applications, down by 31 per cent since March 2006, with a consistent decrease over the year to March 2007. Uncleared applications remain lower than at any point since comparable records began in 1999.

- Applications are being cleared faster than a year ago, meeting the target level for March 2007 – 61 per cent within twelve weeks, up from 53 per cent and 78 per cent were cleared within six months, up from 67 per cent. These figures are based on data from September 2006 for the six month target and December 2006 for the twelve week target. Figures for March 2007 will not be available until later in the year.
- Client service is improving – the Child Support Agency answered 97 per cent of queued calls over 12 months up to March 2007, up from 91 per cent in the previous year. There has also been a significant reduction in the average time taken to answer a call from the queue, 59 seconds in March 2006 down to 26 seconds in March 2007.

Areas where we have more to do:

- Having reduced from an average of 15.9 days at March 2005 to 12 days in March 2006, the level of sick absence within the Child Support Agency remained broadly constant around the 12 day average over the period March 2006 to November 2006. However, the average rose to 12.8 days in the 12 months to February 2007.

Progress against the Secretary of State targets

Uncleared Scheme applications

Target:

By 31 March 2007, the Child Support Agency will have reduced the volume of uncleared new scheme applications by 25 per cent of the number outstanding at the end of March 2006.

Outcome:

The Child Support Agency exceeded the Secretary of State target with a 29 per cent decrease in the number of uncleared new scheme cases, a fall of 65,000 cases, reducing the number of uncleared cases from 221,000 to 156,000. Clearance has exceeded intake each month over the 12 month period.

Across both schemes there were 195,000 uncleared applications at 31 March 2007, a fall of 31 per cent over the previous 12 months.

This progress has been possible due to the Child Support Agency's provision of improved support, guidance and management information to operational colleagues and robust performance management for case clearance.

Throughput

Target:

By 31 March 2007 the Child Support Agency will clear 55 per cent of new applications within 12 weeks of receipt and 80 per cent within 26 weeks.

Outcome:

The 2006/07 target is based on performance against the March 2007 intake, which we will assess using end

June 2007 data for the 12 week target and end September 2007 data for the 26 week target. However, performance over the year on both targets has been steadily improving and we anticipate that this trend will continue and that both targets will be exceeded.

61 per cent of new applications received in December 2006 were cleared within 12 weeks. This is up from 53 per cent in December 2005 and exceeds the 55 per cent target set by the Secretary of State.

78 per cent of new applications received in September 2006 were cleared within 26 weeks. This is up from 67 per cent in September 2005.

Maintenance outcome

Target:

By 31 March 2007 in 65 per cent of cases in which a liability to pay maintenance exists, the non-resident parent either has made a payment via the collection service, or a 'Maintenance Direct' arrangement is in place. In addition, ensuring that at least this level of performance is achieved for those new scheme cases in which the parent with care is on Income Support or income-based Jobseeker's Allowance.

Outcome:

There have been improvements in this area over the year. There has been an increase of over 37,000 in the number of cases with a positive maintenance outcome, i.e. cases where a payment is received, or a 'Maintenance Direct' arrangement is in place, which by 31 March 2007 resulted in 769,000 cases with a positive maintenance liability and a positive maintenance outcome in 466,000 cases.

By 31 March 2007 the Child Support Agency had achieved a positive maintenance outcome in 61 per cent of cases. This is an increase from 59 per cent in March 2006. However, this means the target of 65 per cent has been missed.

Good progress on increasing the number of cases with a positive outcome has been negated by the growth in the number of cases with a positive liability being significantly greater, to the extent that it cancels it out.

As the proportion of the Child Support Agency's caseload administered on the new computer system increases, the problems administering cases on this system, particularly for old scheme cases, are affecting overall Child Support Agency maintenance outcome performance. It is expected that the computer system enhancements which we plan to introduce in the next year, will reduce this problem.

Collection rate

Target:

By 31 March 2007, where maintenance is paid through the collection service, the Child Support Agency will, on average, collect 90 per cent of the amount due.

Outcome:

Performance at 31 March 2007 stood on target at 90 per cent. The collection rate target is measured by looking at the amount received over a three month period by all cases that are paying, as a proportion of the amounts charged for those cases. The last year has seen an increase in the amount collected by debit and

credit cards and an increase in the amount collected by debt collection agencies, both of which are new initiatives for the Child Support Agency.

We plan to increase the use and effectiveness of Deduction from Earnings Orders, using this method of payment earlier and more frequently for those who either default on other payment arrangements or indicate that they are unlikely to pay. We also plan to offer Deduction from Earnings Orders as a voluntary method of payment.

Debt

Target:

The Child Support Agency will collect arrears equivalent to 40 per cent of the amount accruing due to non-payment of regular maintenance between 1 January 2007 and 31 March 2007.

Outcome:

The Child Support Agency's debt is the cumulative total of its 14 years of operation as it has no power to write off debt (even when a debtor dies insolvent). As 100 per cent compliance is impossible to achieve, this debt will continue to grow. The Child Support Agency's efforts are therefore aimed at slowing the rate of growth.

Over the last year debt growth has further slowed and the average monthly growth over the 12 months to March 2007 was £16 million per month, compared to the March 2006 figure of £20 million per month and £23 million per month in the year to March 2005.

Performance saw a significant improvement in March 2007 to stand at 38 per cent. Although the target has been missed there has been an increase from 31 per cent in March 2006.

The Child Support Agency has contracted out some debt collection activity to private debt collection agencies. By the end of March 2007 30,000 cases had been transferred and about £1.6 million had been collected. In addition a letter sent by the Child Support Agency to inform clients that their debt is to be transferred to the external debt collection agencies has also resulted in almost £1 million being collected by the Child Support Agency by the end of March 2007.

Accuracy

Target:

By 31 March 2007 accuracy on the last decision made for all new or old scheme maintenance calculations carried out and checked in the previous 12 months to be correct to the nearest penny in at least 87 per cent of cases.

Outcome:

Work is underway to develop a more meaningful accuracy measure for the Child Support Agency. A new measure will allow more detailed analysis of accuracy within the Child Support Agency, target areas where accuracy problems exist and enable us to learn from our stronger performing business areas.

The current measure reports the percentage of cases sampled where the last decision was inaccurate by more than a penny.

Accuracy performance has fallen slightly over the year and now stands at 80 per cent, compared to 82 per cent in March 2006, falling short of the Secretary of State target of 87 per cent.

Over the coming year a peripatetic 'Quality Assurance Team' will work on-site with teams to improve accuracy. They will engage directly with decision-makers and managers, providing immediate feedback on both the accuracy of selected cases and on adherence to agreed business procedures. The Child Support Agency has also introduced 'complex caseworkers' to deal with more difficult cases which will further assist in improving accuracy.

A performance summary is shown in the table at Annex 1.

The Child Support Agency has agreed a new set of targets with the Secretary of State for 2007/08 which fully align with the Child Support Agency's objectives and Operational Improvement Plan commitments – collecting more money for more children. The detail is set out in the Child Support Agency's 2007/08 Business Plan which was published in March 2007.

Position of the Child Support Agency at the end of the year

There were 466,000 parents in receipt of maintenance or with a 'Maintenance Direct' arrangement in place. This benefited 635,000 children. This is a significant improvement on a year earlier when the corresponding figures were 429,000 parents in receipt of maintenance, or with a 'Maintenance Direct' arrangement, benefiting 591,000 children. This is based on data from the Quarterly Statistical Summary, which results in some variance from the figures published in the Child Support Agency Annual Report and Accounts 2005/06.

The amount of maintenance collected / arranged in 2006/07 was £882.6 million compared to £828 million in 2005/06, an increase of over £50 million. The maintenance collected figure for 2005/06 has been revised since the publication of the Annual Report and Accounts 2005/06 following improvements in the General Ledger making the information recorded more accurate.

This is an early demonstration that the changes to the Child Support Agency and the way that it operates are already starting to make a difference.

New applications and Child Support Agency caseload

By the end of March 2007 the Child Support Agency open caseload stood at 1.36 million cases, 765,000 on the old scheme and 596,000 new scheme cases. This compares to March 2006 where the caseload was 1.39 million cases of which 868,000 were old scheme cases and 525,000 were new scheme cases.

Trends and factors underlying the development, performance and position of the Child Support Agency during the year

Priorities for 2006/07 set out in the Child Support Agency's Business Plan Achieving the best – Client Service Standards

The Child Support Agency published 'Client Service Standards' in April 2006 for the first time since 2003. The standards provide a clear commitment to our clients about the service they can expect from the Child Support Agency. The standards will be regularly reviewed and refined, becoming progressively more demanding as work in the second and third years of the Operational Improvement Plan goes forward.

Respecting people – actions and priorities for 2006/07

We said we would:

- **Bring 1,000 more people into the Child Support Agency by June 2006.**

We have:

Employed more people to deliver the Operational Improvement Plan. We recruited over 950 extra people by the end of October 2006.

In recent months the rate of employee turnover has increased, it was 16 per cent in the year ending January 2007, up from 15 per cent in the previous year. This includes people that left the Child Support Agency to move to a post within the wider Department for Work and Pensions, and those who left the Child Support Agency for posts outside the Department for Work and Pensions.

We said we would:

- **Acquire new sites from across the Department for Work and Pensions to accommodate new people**

We have:

Acquired new sites at Marton Mere and Bishop Auckland. We took on extra space in Hastings, Kirkcaldy, Stockport, Accrington, Newcastle and Washington New Town. We took people from Jobcentre Plus, the Pensions Service and the Disability and Carers Service into this space, as well as recruiting additional people. This made a successful contribution to increasing the Child Support Agency headcount by an additional 1,202 people.

We said we would:

- **Move 1,000 people from other roles into active case progression.**

We have:

Redeployed over 1,000 people into active case progression by 31 March 2007. Overall we have increased the number of people directly progressing cases from 46 per cent to 55 per cent and this figure is still growing.

We said we would:

- **Introduce new ways of working whereby any member of the team will be able to handle the required activity for a client; and**
- **adopt a contact centre approach, which will mean that work items and calls will be routed to teams of staff rather than a specific single caseworker.**

We have:

Introduced a new 'Business Organisational Model', following a review of all our processes. We have re-organised ourselves into teams based on the lifecycle of a case.

Commenced implementation of the second stage of the new 'Business Organisational Model'. This will establish teams focused on the employment status of the non-resident parent. It is part of the business preparations needed before the computer system and telephony upgrades, which will be made during 2007/08.

We said we would:

- **Contract out some work to free up our people, enabling them to focus on delivering an improved service to clients.**

We have:

As detailed earlier, contracted out some debt collection activity to private debt collection agencies.

Established the Child Support Agency Bolton site, operated by a contractor on behalf of the Child Support Agency, in order to process the 'clerical caseload'. These are cases that, due to technical issues, cannot be progressed on our computer system. At 31 March they were progressing the Child Support Agency's 28,000 'clerical cases', in addition to cases from the Northern Ireland Child Support Agency. Payments of over £13 million have been administered to parents with care since the site opened in September 2006. Over 400 Child Support Agency people have been redeployed to active case progression as a direct result of this contracting out, in addition to those already mentioned.

The Child Support Agency is making more use of information held by Her Majesty's Revenue and Customs and credit reference agencies to trace non-resident parents. In particularly difficult cases, we are now referring cases to specialist private sector tracing agencies, to date we have referred over 3,000 cases. Information to locate the non-resident parent and progress the case has been received in 30 per cent of these cases.

We said we would:

- **Retain a specialist caseworker approach to enforcement, complaints and complex casework in order to ensure continually improving service to clients and quality.**

We have:

Significantly increased the number of people employed in enforcement work to over 3,000 by the end of February 2007. Along with other activity, this has enabled us to deal with those parents who seek to avoid their responsibilities by refusing to provide information, or by misrepresenting their circumstances. In the year to March 2006 the Child Support Agency brought 401 criminal prosecutions for such offences, with 389 resulting in guilty verdicts. In the year to March 2007, 494 such prosecutions were brought before the Courts, with 481

being found guilty. The Child Support Agency has increased its investigative resource in order to promote the strong message that such behaviour is unacceptable.

We have also introduced a new system for dealing with complaints from clients. The new process streamlines the number of complaint handling stages from three to two; complaints resolution and complaints review. This aims to promote earlier and complete resolution and reduce the number of complaints that escalate.

Introduced 'complex caseworkers' to deal with more difficult cases in order to help improve accuracy.

Made a number of improvements to computer-generated letters. This work continues. It will help ensure clients are able to understand letters they receive and what is being asked of them.

We said we would support our people through this change by:

- **Assessing the capability of individuals for particular roles in our new structures, and, where possible, taking into account their preferences for the kind of work they wish to do.**

We have:

A total of 2,407 people have had their skills and experience assessed in the last year and were then allocated into new roles. This is helping to ensure that we have the right skills in all areas of the business.

We said we would:

- **Deliver a tailored training programme for people who are new to the Child Support Agency and for those who are changing to newly adopted roles.**

We have:

Delivered a team leader training programme, which commenced in July 2006 and included technical and behavioural management training. This means that team leaders will now be able to take on new roles such as quality assurance of cases, proactive case management and leadership of their teams. All 700 team leaders had completed their training by March 2007.

We have developed and launched the new mission, vision and 'Leadership Framework' through 'Inspirational Leadership' events for all managers. The 'Leadership Framework' underpins the values framework of the Department for Work and Pensions and sets out our expectations for managers in supporting their people to deliver the challenges of the Operational Improvement Plan.

We said we would:

- **Engage with our people through annual staff surveys and other evaluation and assessment activities.**
- **Incorporate the principle of continuous improvement into our planning processes and the way in which we invest in our people.**

We have:

Undertaken another 'Cultural Values Survey' in the last year, which demonstrates that we have made significant progress, with a positive shift towards a more 'client focused' organisation and an increased understanding amongst our people for the need for further change.

The Child Support Agency has also engaged its people through a cycle of continuous improvement activities including staff surveys and Investors in People reviews. This has helped us to understand the cultural changes within the organisation.

Successful Investors in People re-accreditation confirmed that progress has been made in areas of planning, leadership, management, learning and development.

We have developed a cycle of performance improvement activities, which draws on performance data from clients, people within the organisation and stakeholders which informs our strategic and operational planning process.

We said we would:

- **Communicate with our people regularly and in an open and honest manner.**

We have:

Delivered an extensive programme of internal communications, which engaged and focused our people on the challenges of successful delivery of the Operational Improvement Plan and guided and informed them through the substantial periods of organisational change.

The Child Support Agency organised a senior managers conference and held its first roadshows for all employees through March and April 2006.

A new range of communication channels and products targeted and tailored to meet the information needs of different employee groups has been created. Feedback channels have also enabled people across the Child Support Agency to communicate and input on internal communications, this has gone onto help inform our programme of activity.

Additional priorities which we share with the rest of the Department for Work and Pensions

Working with stakeholders and others

To help us continue to improve our service and to meet the needs of our clients, we work with a range of individuals, stakeholder organisations and client groups. These relationships help us to learn about our clients' experiences of dealing with us and to respond constructively to problems and complaints.

Our stakeholders include those who:

- speak on behalf of clients
- provide advice and guidance to clients
- provide services to us, and
- scrutinise and challenge the services we provide and how we deliver them.

We also work closely with other businesses and across Government to:

- increase the information available to trace non-resident parents;
- calculate maintenance liability, and
- ensure that payment is made.

Our partners include:

- Jobcentre Plus
- Her Majesty's Revenue & Customs
- Driver and Vehicle Licensing Agency
- Her Majesty's Courts Service, and
- employers.

We also work with the Department for Work and Pensions' colleagues in the Child Maintenance Redesign Programme on the development of the new Child Maintenance and Enforcement Commission.

Child Support Agency - future development

For 2007/08 this will include:

Delivering the second year of the Operational Improvement Plan

In 2007/08 we will be delivering the second year of the plan. We will continue to embed the changes to the way our organisation is structured. A number of real and lasting benefits will also be visible over the coming year. These include:

Getting it right – gathering information and assessing applications

- improved client communications through better inbound and outbound telephony systems and simplified leaflets, forms and letters.

Keeping it right – active case management

- improving the Child Support Agency complaint handling process; and
- a public awareness campaign, launching in the summer of 2007, to help tackle the problem of non-compliant non-resident parents – parents who should pay child maintenance, but won't. The campaign will highlight the Child Support Agency's enforcement powers and how it is increasingly using them against those who evade their responsibilities.

Putting it right – enforcing responsibilities

- the collection of historic debt, both by our own people and through working with specialist debt collection agencies, and
- improvements to our computer system which will boost productivity, aid our debt and legal enforcement activities and increase levels of case compliance.

Getting the best from the organisation

- a revised management information service to support managers in delivering on-going service improvements
- stronger planning and prioritisation, through more effective risk management
- further development of the 'Business Operating Model' with segmentation by the employment status of the non-resident parent, supported by an upgraded computer system to improve efficiency, and

- improvements to our computer system that will help us to:
 - become more productive
 - resolve problems with cases which cannot currently be progressed
 - reduce the number of cases which need to be dealt with clerically
 - improve financial reporting, and
 - manage payments more effectively for clients.
- continuing to provide training for people working in casework, team leader and operational management roles. This will be supported by on-going coaching to embed the new client-focused behaviours and operating model processes throughout the Child Support Agency to improve services to our clients, and
- engaging with our people through surveys to measure progress towards the desired cultural change within the Child Support Agency. This will provide direction for further client focus work to be undertaken and will help to deliver more money for more children.

Signed



Stephen Geraghty

Chief Executive

10 July 2007

Annex 1

Performance Summary

The table on page 22 provides information on areas where comparative data is available over the last two or three years.

The focus in the first year of the Operational Improvement Plan has been the review of our processes and the reorganisation of the way we operate. This has included training and organising our people, to increase our capacity and capability, and developing our culture. We expect the most significant changes in performance to happen in the third year of the Operational Improvement Plan.

During this first year our overall performance has stabilised, with improvements in several key areas.

Figures in this table are based on data from the Child Support Agency's Quarterly Statistical Summary, which may result in some variance from the figures published in the Annual Report and Accounts 2005/06.

Performance Measure	Target and Outturn <small>(where applicable)</small>	2004/05	2005/06	2006/07	Commentary
Maintenance outcome (cases in receipt of maintenance) 'Maintenance Direct' or collection service		385,000	429,000	466,000	Both of these figures provide an early indication that implementation of the Operational Improvement Plan is starting to result in performance improvements.
Number of children benefiting from receipt of maintenance 'Maintenance Direct' or collection service		537,000	591,000	635,000	
Monthly new scheme case clearance Average over the period		19,500	27,800	29,600	The emphasis in the first year of the Operational Improvement Plan has been to increase our capacity and capability. This has delivered some early results, including a 29% reduction in the number of uncleared cases.
Uncleared applications Measured at point in time Total (rounded) New Scheme Old scheme		313,500 225,900 87,600	281,800 220,800 61,000	194,600 155,800 38,800	
Throughput Percentage of new scheme cases cleared in 12 weeks Percentage of new scheme cases cleared in 26 weeks		39% 60%	53% 73%	61% 78%	Based on December 2006 intake. Based on September 2006 intake.
Cases receiving 'Child Maintenance Premium'		22,600	43,300	57,000	There has been a 32% increase in the number of cases receiving the 'Child Maintenance Premium'.
Compliance cases overall The total number of compliant cases		295,500	320,300	338,500	This is nearly a 6% increase over the year in the number of compliant cases

Performance Measure	Target and Outturn <small>(where applicable)</small>	2004/05	2005/06	2006/07	Commentary
Accuracy Old Scheme Accuracy on the last action for all assessments checked in the year to be correct to the nearest penny in at least 87% of cases	Target Outturn	87% 78%	87% 84%	87% 83%	Performance has remained stable. Over the coming year a central, peripatetic, 'Quality Assurance Team' will work on-site with teams to improve accuracy. They will engage directly with decision-makers and managers, providing immediate feedback on both the accuracy of selected cases and on adherence to agreed business procedures. The Child Support Agency has also introduced 'complex caseworkers' to deal with more difficult cases which will further assist in improving accuracy.
Debt To collect arrears equivalent to 30% of the amount accruing due to non-payment of regular maintenance	Target Outturn	- 25%	30% 31%	40% 38%	<p>The 2005/06 Debt target excluded arrears built up and collected from old scheme cases for which an Interim Maintenance Assessment had been imposed. Although this target has been rolled forward, the 2006/07 target will measure these Interim Maintenance Assessment cases thus will not be comparable to the 2005/06 performance.</p> <p>There will be a greater emphasis on improving collection of debt in the remaining years of the Operational Improvement Plan.</p>
Debt growth Average monthly growth over the 12 months		£23 million	£20 million	£16 million	Although the debt target has been missed the growth in debt has slowed for the second year.
Telephony average over the year - Percentage of calls answered from the queue / average answer time from the queue		84% 100 secs	91% 59 secs	97% 26 secs	A significant increase over the past year and an early demonstration of improvements in service to our clients under the Operational Improvement Plan.

Performance Measure	Target and Outturn <small>(where applicable)</small>	2004/05	2005/06	2006/07	Commentary
Complaints The number of complaints during the year		42,000	55,000	48,000	This 13% reduction in the number of complaints is an early indication that our service to our clients is improving with implementation of the Operational Improvement Plan
Enforcement Number of prosecutions for refusal to provide information or misrepresentation of for refusal to provide information Suspended committal sentences Committal sentences Suspended driving licence disqualification sentences Driving licence disqualification sentences	Prosecutions Guilty verdicts	- 283 17 34 0	401 389 389 17 37 5	494 481 406 41 27 5	The percentage of guilty verdicts has increased From 97.0% to 97.4% The second year of the Operational Improvement Plan will see an increased emphasis on compliance and enforcement.

Annual Statement of Accounts for the year ended 31 March 2007

Administration Account

Foreword

Statutory background

The Child Support Agency presents its Accounts for the financial year ended 31 March 2007. The Accounts have been prepared in accordance with the direction given by Her Majesty's Treasury in pursuance of Section 7 (2) of the Government Resources and Accounts Act 2000.

The Child Support Agency was established as an Executive Agency of the Department for Work and Pensions in April 1993.

Principal activities

The principal activities of the Child Support Agency are set out in its Framework Document (1995). The Child Support Agency exists to assess, collect, pay and, where necessary, enforce child support maintenance in accordance with the law and directions from the Secretary of State.

Within the Administration Account of the Child Support Agency we administer the calculation and collection of child maintenance from the parent who is not the main day to day carer of their child (the non-resident parent) and make sure that it is paid to the parent or person who is the main day to day carer of the child (the parent with care).

We keep separate all of the monies that we use to administer these arrangements in this account, the Administration Account, which is distinct from the child maintenance monies in the Client Funds Account.

Performance targets

The Child Support Agency's performance targets were set out in the 2006/07 Business Plan, which was published in March 2006.

Results for the year on an accruals basis

The Operating Cost Statement shows the net administration cost of the Child Support Agency on an accruals basis.

The net administration cost amounted to £520 million (2005/06, £465 million). Capital expenditure for the year, full details of which are given in Note 7, amounted to £0.04 million (2005/06, £0.22 million). The net administration cost includes £0.3 million (2005/06, £0.8 million) of expenditure on assets valued below the capitalisation threshold (see Note 1.2).

The net administration cost has been calculated after including a number of notional costs which are not currently charged to the Child Support Agency but which are borne centrally by the Exchequer, for example, cost of capital charge (see Notes 1.9 and 5).

Going concern

The Child Support Agency receives its funding from the Department for Work and Pensions and as part of the Government's Spending Review 2004 settlement and has clear funding amounts through to 2007/08. These amounts will be made available when needed and are sufficient to implement fully the Operational Improvement Plan.

In common with other parts of the Department for Work and Pensions, the Child Support Agency's Balance Sheet at 31 March 2007 indicates more liabilities than assets. As with other government departments, the Child Support Agency continues to be financed by drawings from the UK Consolidated Fund on an ongoing basis. The application for future financing of the Department for Work and Pensions, of which the Child Support Agency is part, will be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming. It has therefore been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Parliamentary funding

The Child Support Agency is a supply financed Executive Agency of the Department for Work and Pensions and, as such, remains subject to gross expenditure control under the Parliamentary Vote system. The net cash cost of the Child Support Agency's operations, along with the rest of the Department for Work and Pensions, will be accounted for within the Statement of Parliamentary Supply (Schedule 1) in the Resource Account of the Department for Work and Pensions. This account will be published separately.

The Child Support Agency's work programme and expenditure plans are published in the Child Support Agency's Business Plan for 2006/07 and form part of CM 7105: Department for Work and Pensions Departmental Report published on 16 May 2007.

Employment of disabled people

People with disabilities, as defined in the Disability Discrimination Act 1995, are employed across all parts of the Child Support Agency.

Commitment to equality and valuing diversity

In line with policy within the Department for Work and Pensions, the Child Support Agency is committed to providing services which embrace diversity and which promote equality of opportunity. As an employer, the Child Support Agency is committed to equality and valuing diversity within its workforce. Our goal is to ensure that these commitments, reinforced by our values, are embedded in our day-to-day working practices with all our clients, colleagues and partners.

Employee involvement

Our people have access to welfare services, which support them and promote well being in the workplace.

Our people also have access to trade union membership. The Child Support Agency has procedures for consulting its trade unions and supports representation in the workforce by trade union representatives.

The Child Support Agency is committed to ensuring that its people at all levels can contribute towards decisions affecting the day to day business of the Child Support Agency.

Pension liabilities

Child Support Agency people are civil servants to whom the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply. The Principal Civil Service Pension Scheme is the main pension scheme for all civil servants including the Child Support Agency's people. It is a defined benefit scheme, with benefit expenditure borne on the Civil Superannuation Vote.

Details of the Pension Scheme are disclosed in Note 2.

Payments to suppliers

The Child Support Agency is committed to the prompt payment of bills for goods and services received. Payments are normally made as specified in the supplier's contract. If there is no contractual provision or other understanding, they should be paid within 30 days of receipt of the goods or services, or on presentation of a valid invoice or similar demand, whichever is later.

A review of all payments made during the year, conducted to measure how promptly the Child Support Agency pays its bills, found that approximately 83 per cent (2005/06, 95 per cent) of bills were paid within this standard. The introduction of a new accounting system near the end of 2005/06, together with the contracting out of invoice payment to a third party service provider, had a significant impact on prompt payment during the early part of the year but payments improved as robust processes were established and put into practice in the latter part of the year.

The 'Late Payment of Commercial Debts (Interest) Act 1998' which came into effect from 1 November 1998 and the 'Late Payment of Commercial Debts Regulations 2002', which came into force on 7 August 2002, provide all businesses and public sector bodies with the following entitlements:

- the right to claim interest for late payment
- the right to claim reasonable debt recovery costs, unless the supplier has acted unreasonably
- the right to challenge contractual terms that do not provide a substantial remedy against late payment, and
- the right for 'representative bodies' to challenge contractual terms that are grossly unfair on behalf of small or medium sized enterprises.

No interest charges have arisen or been paid to suppliers by the Child Support Agency.

Public interest

There are no company directorships or other significant interests held by Board Members, which may conflict with their management responsibilities.

External audit

These Accounts have been audited by the Comptroller and Auditor General whose certificate and report appear on pages 41 and 42.

Additionally the Accounting Officer confirms that, so far as he is aware, there is no information relevant to the audit of the Accounts of which the auditors are unaware. The Accounting Officer has taken all responsible steps to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Post Balance Sheet events

There have been no material post Balance Sheet events that require disclosure in these Accounts; the Accounts reflect the conditions that existed at the Balance Sheet date.

The Euro

The Child Support Agency continues to maintain its changeover planning and preparation activities such that, in the event of a positive decision to join the single European currency, the changes required to the computer systems, business systems and products will have been identified and quantified and the Child Support Agency would be able to meet the timescales set out in the Third National Changeover Plan.

Signed

A handwritten signature in blue ink, appearing to read 'S. Geraghty', written over a faint horizontal line.

Stephen Geraghty

Accounting Officer

10 July 2007

Administration Account

Remuneration Report

Management

Appointment and remuneration of the Chief Executive

The Chief Executive of the Child Support Agency was appointed by the Permanent Secretary of the Department for Work and Pensions. The appointment is for a fixed term under the terms of the Senior Civil Service Management Code.

The Chief Executive's pay is determined by the Permanent Secretary in line with the Senior Civil Service pay arrangements.

Further details of remuneration are set out in this report and Note 2 of the Notes to the Accounts.

Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Apart from Stephen Geraghty, the Chief Executive, who was appointed on a three year contract commencing on 1 April 2005, and Keith Woodhouse, Business Design Director, who was appointed on a three year contract commencing on 11 September 2006, the directors covered by this report hold appointments on a permanent basis. Early termination, other than for misconduct, would result in an individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk

Remuneration policy

The remuneration of senior civil servants is determined by a Pay Strategy Committee chaired by the Permanent Secretary of the Department for Work and Pensions and also comprising the Department for Work and Pensions' Human Resources Director, the Chief Executive of Jobcentre Plus and a Non-Executive Director of the Department for Work and Pensions. The Pay Strategy Committee follows independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body on Senior Salaries has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- regional/local variations in labour markets and their effects on the recruitment and retention of people
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services
- the funds available to departments as set out in the Government's departmental expenditure limits, and
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com

Methods used to assess performance

There are two stages involved in the assessment of performance:

1. Self assessment, and
2. Performance review discussion with line manager.

How these operate in practice is discussed below:

1. Although there is no requirement formally to record a self-assessment senior civil servants are encouraged to consider their own assessment in preparation for their performance review discussion. They would reflect on and collect a reasonable amount of examples or evidence that would be helpful in assessing their contribution in relation to the measures and required outcomes they signed up to either at the beginning of the year or as their role developed during the year.
2. The performance review discussion is an opportunity for the senior civil servant and their line manager to address performance in relation to:
 - the achievement of objectives
 - contribution to organisational objectives
 - growth in competences, and
 - the application of skills and knowledge.

They will also discuss issues for the forthcoming year, which would include

- the objectives for the forthcoming year
- the range of sources to be used in assessing their performance in the forthcoming year, and
- the potential and development needs of the senior civil servant.

Remuneration and pension entitlements

The following sections provide details of the remuneration and pension entitlements of the most senior officials of the Child Support Agency.

Remuneration

2006/07

2005/06

	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Stephen Geraghty Chief Executive	195-200	-	175-180	-
Hilary Reynolds Deputy Chief Executive (until 4 November 2006)	60-65 (105-110 full year equivalent)	17	40-45 (105-110 full year equivalent)	18
Ron Eagle Director (until 20 September 2006)	55-60 (105-110 full year equivalent)	-	100-105	-
Jim Edgar Director (until 2 April 2006)	5-10 (85-90 full year equivalent)	-	75-80	-
Elaine Fox Director (until 7 May 2006)	15-20 (95-100 full year equivalent)	-	100-105	-
Mark Grimshaw Director	140-145	-	140-145	-
Alan Hardy Director (from 3 April 2006)	110-115 (110-115 full year equivalent)	-	N/A	N/A
Susan Park Director (from 3 April 2006)	95-100 (95-100 full year equivalent)	-	N/A	N/A
Ian Pavey Director (from 8 May 2006)	85-90 (95-100 full year equivalent)	-	N/A	N/A
Keith Woodhouse Director (from 13 September 2006)	65-70 (115-120 full year equivalent)	-	N/A	N/A

Salary

Salaries quoted relate solely to the period during the year when the individuals concerned served on the Child Support Agency Board.

'Salary' includes gross salary; performance pay or bonuses; reserved rights to London weighting or allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by Her Majesty's Revenue and Customs as a taxable emolument.

Non-cash remuneration

All remuneration of the directors of the Child Support Agency is disclosed within the above table. The Child Support Agency did not make any non-cash awards during 2006/07.

Compensation to former senior managers

The Child Support Agency did not make any awards to former senior managers.

Payments for loss of office

The Child Support Agency did not make any payments for loss of office.

Civil Service pensions

Pension benefits are provided through the Principal Civil Service Pension Scheme arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes:

- Classic
- Classic Plus, and
- Premium.

The schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Classic Plus and Premium are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution, a Partnership Pension Account.

Employee contributions are set at the rate of 1.5 per cent per cent of pensionable earnings for Classic and 3.5 per cent per cent for Classic Plus and Premium. Entitlements in Classic accrue at the rate of 1/80th of pensionable salary for each year of service; in addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, entitlements accrue at the rate of 1/60th of final pensionable earnings for each year of service; unlike Classic, there is no automatic lump sum but members may give up (commute) some of their pension to provide a lump sum. In Classic Plus entitlements accrue as with Classic (including lump sum) for service before 1 October 2002 and as with Premium (including optional lump sum) for service from 1 October 2002.

The Partnership Pension Account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement). None of the directors of the Child Support Agency currently holds a Partnership Pension Account.

Further details about the Principal Civil Service Pension Scheme arrangements can be found at the website <http://www.civilservice-pensions.gov.uk/>

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme entitlements accrued by a member at a particular point in time. The entitlements valued are the member's accrued entitlements and any contingent spouse's pension payable from the scheme. It is:

- a payment made by a pension scheme
- arrangement to secure pension entitlements in another pension scheme, or
- arrangement when the member leaves a scheme and chooses to transfer the entitlements accrued in their former scheme.

The pension figures shown relate to the entitlements that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures, and other pension details, include the value of any pension entitlement in another scheme or arrangement which the individual has transferred to the Principal Civil Service Pension Scheme arrangements and for which the Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension entitlement accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost.

CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries. The factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any entitlements transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Pension entitlements	Accrued pension at age 60 as at 31 March 2007 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31 March 2007	CETV at 31 March 2006	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
Stephen Geraghty Chief Executive	10-15	0-2.5	198	166	23
Hilary Reynolds Deputy Chief Executive (until 4 November 2006)	20-25 plus 60-65 lump sum	0-2.5 plus 0-2.5 lump sum	331	321	8
Ron Eagle Director (until 20 September 2006)	0-5	0-2.5	58	45	10
Jim Edgar Director (until 2 April 2006)	25-30 plus 80-85 lump sum	0-2.5 plus 0-2.5 lump sum	436	462	0
Elaine Fox Director (until 7 May 2006)	30-35 plus 75-80 lump sum	0-2.5	512	553	0
Mark Grimshaw Director	5-10 plus 15-20 lump sum	0-2.5 plus 2.5-5 lump sum	104	82	19
Alan Hardy Director (from 3 April 2006)	0-5	0-2.5	20	0	16
Susan Park Director (from 3 April 2006)	30-35 plus 95-100 lump sum	2.5-5 plus 10-12.5 lump sum	505	416	58
Ian Pavey Director (from 8 May 2006)	0-5	0-2.5	21	0	17
Keith Woodhouse Director (from 13 September 2006)	0-5	0-2.5	17	0	14

There is no related lump sum if none is shown because the director is a member of the Premium Scheme.

Other Board Members

The following sections provide details of payments made to other Board Members of the Child Support Agency.

The fees paid to Ex-Officio Board Members of the Child Support Agency are already included within the Accounts of the Department for Work and Pensions.

Throughout her period as a Board Member Hilary Reynolds had the private use of an allocated car in the circumstances permitted by the Civil Service Management Code.

Non-Executive Board Members of the Child Support Agency received the following fees:

	2006/7 £'000	2005/06 £'000
Richard Arthur	22	-
Bryan Foss	27	1
Bill Griffiths	19	-
Peter Holden	16	1
Susan Jillings	19	6
Barbara Moorhouse	-	17

The fees paid to John Cross are already included within the Accounts of the Department for Work and Pensions and so are not shown above.

Signed



Stephen Geraghty

Accounting Officer

10 July 2007

Administration Account

Statement of Accounting Officer's responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000, Her Majesty's Treasury has directed the Child Support Agency to prepare for each financial year a statement of Accounts in the form and on the basis set out in the Accounts Direction.

The Accounts for the Administration Account are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Child Support Agency at the year end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the Accounts the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual, and in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the Accounts, and
- prepare the Accounts on the going concern basis, unless it is inappropriate to presume that the Child Support Agency will continue in operation.

The Principal Accounting Officer of the Department for Work and Pensions has appointed the Chief Executive of the Child Support Agency as the Accounting Officer for the Child Support Agency.

The responsibilities of an Accounting Officer, including responsibility for

- the propriety and regularity of the public finances for which an Accounting Officer is answerable
- keeping proper records, and
- safeguarding the Child Support Agency's assets

are set out in the Accounting Officers' Memorandum, issued by Her Majesty's Treasury and published in Government Accounting.

Administration Account

Statement of Accounting Officer's responsibilities

1. Scope of responsibility

As Accounting Officer for the Child Support Agency I have responsibility for maintaining a sound system of internal control that supports the achievement of Child Support Agency policies, aims and objectives, whilst safeguarding the public funds and assets of the Child Support Agency for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am accountable to the Principal Accounting Officer of the Department for Work and Pensions, the Permanent Secretary, who is appointed by Her Majesty's Treasury. I keep the Permanent Secretary informed of progress and significant issues facing the Child Support Agency during our regular bi-lateral meetings.

In my opening message to the Child Support Agency's 2005/06 Annual Report and Accounts, I anticipated that 2006/07 would again be challenging for all the Child Support Agency's people. So it has proved.

The Child Support Agency works in a problematic environment. Twenty five thousand people apply to us for help every month. All of them come to us at a difficult time of their lives. There are problems in gathering information from clients, tracing non-resident parents, taking account of frequent movements in and out of work, and arranging payments. Over its fourteen year life the Child Support Agency has collected £5.6 billion maintenance (and arranged further direct maintenance payments above this), but £3.7 billion accumulated arrears remains uncollected from non-resident parents for many reasons.

This inherent challenge is compounded by the need to deliver a policy which it is now accepted needs a major overhaul, maintaining and as far as possible improving performance in supporting a caseload of some 1.4 million live cases and collecting or arranging more than £800 million in maintenance. Our 2006/07 Annual Report explains that the Child Support Agency was generally successful in both improving daily performance and in delivering the first year of the three year Operational Improvement Plan, a major overhaul of the Child Support Agency's systems, practices and organisation, in particular the computer system ("CS2") which has performed far below original expectations since going live in 2003.

The Child Support Agency has faced significant internal control challenges throughout a period of organisational change. In particular, the need to remain clear about accountabilities and decision making, safeguard clients' funds and personal data, and build security and controls into a range of new systems and processes.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Child Support Agency policies, aims and objectives, to evaluate the likelihood of those risks being realised and their potential impact. The system of internal control has been in place in the Child Support Agency for the year ended 31 March 2007, and up to the date of the approval of the Annual Report and Accounts and accords with Her Majesty's Treasury guidance, except for the matters noted below.

3. Capacity to handle risk

The Child Support Agency strengthened its leadership team in 2006/07. In particular, four executive directors were appointed from outside the Child Support Agency during the year bringing a broad range of skills and experience from the public and private sectors.

The Child Support Agency's Executive Team recognises the importance of risk management of which each of its members has practical experience. The team has actively managed the risks that have emerged during the year and demonstrated leadership through a series of measures. These have included conducting quarterly risk workshops, setting a risk based forward looking agenda, holding regular 'Programme Board' meetings specifically addressing risks to the successful delivery of the Operational Improvement Plan and setting up a new sub-committee, the 'Planning, Performance and Risk Forum', which identifies and escalates risk as appropriate.

The Child Support Agency developed a number of tools in 2006/07 including a risk management framework, standardised guidance, templates, desk aids and a risk management intranet site. These tools were used to drive up the quality of risk management during the year through a programme of awareness sessions and risk workshops. Evaluation of this activity produced encouraging results. The annual Risk Self-Assessment Framework survey of Her Majesty's Treasury (led by the Department for Work and Pensions' Corporate Risk Team) was much more favourable to the Child Support Agency.

4. The risk and control framework

The Child Support Agency works within the risk and control framework laid down by the Department for Work and Pensions and participates fully in its 'Planning, Performance and Risk Committee', which is responsible for identifying, prioritising and escalating key strategic risks as appropriate. The Child Support Agency also adopted the new risk management methodology of the Department for Work and Pensions in August 2006 and fully completed implementation by March 2007.

During the course of 2006/07 the Child Support Agency established clear risk processes and structures across all levels of the business through a comprehensive set of risk registers and team risk discussions at all key governance and management forums.

At the end of 2006/07 all Executive Team members were required to provide letters of assurance confirming that they had complied with the Department for Work and Pensions and Child Support Agency risk procedures. Specific concerns raised have been reflected as appropriate within this statement.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Child Support Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports.

Throughout the year an improved governance structure has been in place to provide strategic leadership and ensure that the Operational Improvement Plan is delivered successfully. The key governance bodies are described below.

Child Support Agency Board. This is an advisory board which meets eight times per year bringing together a number of highly experienced non-executive directors with the Child Support Agency's executive directors.

Executive Team. This meets on a weekly basis and is the primary decision-making forum for the Child Support Agency.

Programme Board. This is the main governance body for the Operational Improvement Plan, on which key stakeholders including delivery partners are represented. It is supported by a programme sub-committee which meets on a weekly basis.

Audit Committee. This comprises Non-Executive Board Members and has provided strong leadership and advice on internal control matters and related assurances through six meetings during 2006/07.

Standards Committee. This committee was re-launched mid-year under a new Non-Executive chair and met twice in the latter half of the year. Whilst noting that the Child Support Agency failed to improve accuracy performance during 2006/07 and hence missed its target, the Standards Committee acknowledged and endorsed the new approach to accuracy checking and quality assurance, which is expected to result in measurable performance improvement during 2007/08.

Management Forums. Meetings are held on a monthly basis for the new national 'Lines of Business' and are used to drive service delivery performance and process compliance.

There were many assurances available to the Child Support Agency in 2006/07 including a comprehensive internal audit programme, the interim and year end audits performed by the National Audit Office, a number of externally commissioned reviews, various internal reviews and assurances including the Executive Team members' letters of assurance to the Chief Executive.

6. Significant internal control problems

Significant control weaknesses identified in the Operational Improvement Plan and the 2006/07 internal audit annual assurance report are computer systems, management information, compliance, security, financial management and control and governance. Action plans have been developed to address each of these.

Computer systems. The Child Support Agency has experienced major problems with computer systems. These include weaknesses in security, accounting for client funds, management information and general throughput of work. Some six hundred manual workarounds still exist and a large number of "stuck" cases are experiencing technical problems. Collectively, these weaknesses have necessitated a complete overhaul of the CS2 system. In 2006/07 a prioritised programme of work was agreed with key technology suppliers to rectify some of the remaining problems and to support other more fundamental changes throughout the timeframe of the Operational Improvement Plan. One tactical release took place in December 2006. Two further more far reaching releases will introduce a new business operating environment, the first currently planned for late 2007/08.

Management information. Lack of robust management information has been an issue for the Child Support Agency. During 2005/06, managers were reliant on a mixture of inaccurate system-generated management information and fallible clerically generated management information. In 2006/07 the position steadily improved. Key steps included a phased improvement of each data stream, more detailed reporting of performance down to team level and more management focus on performance analysis. The CS2 upgrade and releases mentioned above have been designed to provide further significant enhancements.

Compliance. Non-compliance with both procedures and guidance has been a long-standing problem for the Child Support Agency. This has hampered the Child Support Agency in providing a consistent standard of service to clients. It has also had an adverse impact on accuracy, where the Child Support Agency failed to improve performance and meet its 2006/07 target. However, some improvements in compliance were seen in 2006/07 as a result of the Operational Improvement Plan. For example, the Child Support Agency's reorganisation from a geographical to a line of business structure helped to drive a more uniform standard of service. Further improvements are expected during 2007/08, as a result of a comprehensive team leader training programme, new client service standards and a new quality assurance capability.

Security. The Child Support Agency's computer systems have some weaknesses in management checking and the logging of work done. The CS2 upgrade should strengthen security and general awareness is expected to improve through an overhaul of security checking in early 2007/08.

Financial management and control. The Department for Work and Pensions' resource management system experienced teething problems in a number of areas including delayed payment of invoices. In addition, in the first half of the year, it was not possible to align the cost centre structure fully with the new national lines of business. However, this did not adversely affect control of costs overall.

Governance. The main governance bodies operated effectively throughout 2006/07 and remaining gaps in the governance framework were filled during the course of the year. In particular the Standards Committee, which had not met for over a year, was re-formed in November 2006, the managerial letters of assurance process was substantially improved, delegated authorities for decision-making were clarified in a governance handbook and risk management processes were overhauled.

7. Conclusion

As I explained in Section 1 above, the Child Support Agency is operating in an inherently challenging environment. There is no quick fix possible to remove all problems that have accrued over the last fourteen years and it will take time to deliver substantial improvements in the Child Support Agency's performance. In 2006/07 there were nevertheless some very encouraging performance improvements, most notably in throughput, the reduction in new scheme uncleared applications and our performance in answering our customers' telephone calls.

The Child Support Agency is in the process of a complete restructuring of its operation, to increase productivity and performance. Real and lasting benefits from this action plan should be visible from 2007/08 onwards.

I confirm that the key areas for improvement will be regularly monitored during the year to ensure that progress is made.

Signed



Stephen Geraghty

Accounting Officer

10 July 2007

Administration Account

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

I certify that I have audited the financial statements for the Administration Account of the Child Support Agency for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related Notes. The financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that Report as having been audited.

Respective responsibilities of the Child Support Agency, the Chief Executive and auditor

The Child Support Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and Her Majesty's Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with Her Majesty's Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which includes the Message from the Chief Executive, the Management Commentary and the Performance Summary, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Child Support Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by Her Majesty's Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Child Support Agency's compliance with the guidance of Her Majesty's Treasury, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Child Support Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Child Support Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Child Support Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Her Majesty's Treasury, of the state of the Child Support Agency's affairs as at 31 March 2007, and of the net administration costs, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with Her Majesty's Treasury directions issued under the Government Resources and Accounts Act 2000; and
- The information given within the Annual Report, which comprises which includes the Message from the Chief Executive, the Management Commentary and the Performance Summary, is consistent with the financial statements.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.



John Bourn

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
11 July 2007

Administration Account

Operating Cost Statement for the year ended 31 March 2007

	Notes	2006/07 £'000	2005/06 £'000
Administration costs			
Staff costs	2	271,215	240,141
Non-staff administration costs	3	251,644	225,252
Gross administration costs		522,859	465,393
Administration income	6	(2,516)	(171)
Net administration costs		520,343	465,222

All income and expenditure is derived from continuing operations

Statement of Recognised Gains and Losses for the year ended 31 March 2007

	Notes	2006/07 £'000	2005/06 £'000
Net gain on revaluation of tangible fixed assets	13	21	8
Net loss on transfer of asset to the Department for Work and Pensions' Head Office and Corporate and Shared Services		0	(19,391)
Recognised gains and losses for the financial year		21	(19,383)
Restatement of prior year		0	19,392
Gains and losses recognised since last annual report		21	9

The Notes on pages 46 to 66 form part of these Accounts.

Administration Account
Balance Sheet as at 31 March 2007

	Notes	2006/07 £'000	2005/06 £'000
Tangible fixed assets	7	3,476	7,777
Debtors falling due after one year	8	2,567	2,732
Current assets			
Debtors falling due within one year	8	4,969	5,007
Cash at bank and in hand	9	0	1
		4,969	5,008
Current liabilities			
Creditors falling due within one year	10	(35,804)	(19,097)
Net current liabilities		(30,835)	(14,089)
Total assets less current liabilities		(24,792)	(3,580)
Provisions for liabilities and charges	11	(1,133)	(1,411)
		(25,925)	(4,991)
Financed by Taxpayers' Equity			
General Fund	12	(25,980)	(5,027)
Revaluation Reserve	13	55	35
Government Grant Reserve	13	0	1
		(25,925)	(4,991)

The Notes on pages 46 to 66 form part of these Accounts.

Signed



Stephen Geraghty

Accounting Officer
10 July 2007

Administration Account
Cash Flow Statement for the year ended 31 March 2007

	Notes	2006/07 £'000	2005/06 £'000
Net Cash Outflow from administration activities	14 (i)	(400,337)	(384,193)
Net Cash Outflow from investing activities	14 (ii)	(77)	(185)
Net Financing from Consolidated Fund (supply)	14 (iii)	400,413	384,378
Decrease in cash for the year		(1)	0

The Notes on pages 46 to 66 form part of these Accounts.

Administration Account

Notes to the Accounts for the year ended 31 March 2007

1 Statement of accounting policies

The Accounts have been prepared in accordance with the 2006/07 Government Financial Reporting Manual issued by Her Majesty's Treasury. The accounting policies contained in the Government Financial Reporting Manual follow Generally Accepted Accounting Practice for companies in the UK, to the extent that it is meaningful and appropriate in the public sector context.

Where the Government Financial Reporting Manual permits a choice of accounting policy, the accounting policy that has been judged to be most appropriate to the particular circumstances of the Child Support Agency for the purpose of giving a true and fair view has been selected. The Child Support Agency's accounting policies have been applied consistently in dealing with items considered material in relation to the Accounts.

1.1 Accounting convention

The Accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, at their value to the business, by reference to their current costs.

1.2 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost or recoverable amount.

During 2005/06 the Department for Work and Pensions entered into a new computer systems contract, Transformation of EDS Services (TREDSS), for provision of the majority of its computer hardware and software, and a new telephony contract, Integrated Communications and Network Services (ICONS), for provision of its telephony assets. The Child Support Agency does not include in its Balance Sheet capital values for these items.

Computer hardware and owned software, where out of the scope of the new contracts and over the capitalisation threshold of £100 are treated as capital assets. For plant and machinery assets the prescribed capitalisation level is £5,000. Where an item costs less than the capitalisation level, but forms an integral part of a package whose total value is greater than the capitalisation level, then the item is treated as a capital asset. On initial recognition assets are measured at cost, including any costs such as installation directly attributable to bringing them into working condition.

For furniture and fittings, the total costs of maintaining a record of relatively low value individual items is considered to be prohibitive and therefore these items are recorded on a pooled basis.

Internally developed software is capitalised if it meets the criteria specified in the Government Financial Reporting Manual, which are adapted from SSAP 13 to take account of the not-for-profit context. Costs are classified as assets under construction until the asset is brought into service. Expenditure, which does not meet the criteria for capitalisation, is treated as an administration cost in the year in which it is incurred.

All fixed assets are revalued by reference to appropriate Her Majesty's Treasury approved indices.

Increases in value are credited to the Revaluation Reserve whilst decreases in value are debited to the Revaluation Reserve up to the level of depreciated historical cost for any asset previously revalued. Any excess devaluation (impairment) is charged to the Operating Cost Statement along with devaluation on assets (such as computers) not previously revalued.

Each year, the realised element of the Revaluation Reserve (i.e. an amount equal to the excess of the actual depreciation over depreciation based on historical cost) is transferred from the Revaluation Reserve to the General Fund.

On disposal of a revalued asset, the balance on the Revaluation Reserve in respect of that asset becomes fully realised and is transferred to the General Fund.

1.3 Estimation techniques

The calculation of the provision for bad/doubtful administration debt is based on likely future write-offs and is calculated on a case-by-case basis with reference to the age and status of the debt.

1.4 Land and buildings

The Child Support Agency does not include in its Balance Sheet capital values for the freehold and leasehold land and buildings, which it occupies under the Private Sector Resource Initiative for Management of the Estate (PRIME) and Newcastle Estates Development (NED) contracts. In accordance with FRS 5 the contracts have been treated as an operating sale and leaseback, as the risks and rewards of ownership have been substantially transferred to the contractor.

The Child Support Agency has accounted for the deferred benefit, which will result from reduced accommodation charges from the NED contract by establishing a prepayment, which is released annually to the Operating Cost Statement on a straight-line basis over the 30-year period of the contract (see Notes 4 and 8).

1.5 Depreciation

Depreciation is provided on all tangible fixed assets, using the straight-line method, at rates calculated to write off the current replacement cost (less any estimated residual value) of each asset, in equal instalments over its expected useful economic life. Fixed assets are depreciated from the month following acquisition. No depreciation is charged in the month of disposal. Assets under construction are not depreciated until the asset is brought into use.

Tangible fixed assets are depreciated over the following expected useful economic lives:

- Computer systems 3 to 5 years
- Plant and machinery 5 to 10 years
- Furniture and fittings 7 to 10 years, and
- Motor vehicles 4 to 8 years

1.6 Stocks

The Child Support Agency holds stocks of stationery, computer spares and similar consumable materials. Due to the nature of these items the Child Support Agency does not consider it appropriate to reflect their value in the Balance Sheet. Accordingly the Child Support Agency has charged all expenditure on consumable items to the Operating Cost Statement.

1.7 Administration income

Administration income is income which relates directly to the administration activities of the Child Support Agency. It principally comprises fees and charges for services provided on a full cost basis to external clients, as well as public repayment work. It includes both income appropriated-in-aid of the Estimate and income to be surrendered to the Consolidated Fund, which in accordance with the Government Financial Reporting Manual is treated as administration income (see Note 6).

1.8 Administration expenditure

The Operating Cost Statement is analysed by administration costs only; the Child Support Agency has no programme expenditure. Administration costs reflect the costs of funding the Child Support Agency as defined under the Administration 'Cost Control Regime', together with associated administration income. Income is analysed in the Notes between that which is allowed to be offset against gross administration costs, in determining the outturn against the Administration 'Cost Limit', and that administration income which is not.

1.9 Cost of capital charge

A charge, reflecting the cost of capital utilised by the Child Support Agency, is included in notional costs (see Note 5). The charge is calculated at the real rate set by Her Majesty's Treasury on the average carrying amount of all assets less liabilities, except for the following where the charge is nil:

- a) intra departmental balances
- b) cash balances with The Office of Her Majesty's Paymaster General, and
- c) assets and liabilities in respect of amounts due from, or due to be surrendered to, the Consolidated Fund.

The current real rate is 3.5 per cent (2005/06, 3.5 per cent)

1.10 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme, details of which are described in the Remuneration Report. The defined benefit element of the Principal Civil Service Pension Scheme is unfunded and is non-contributory except in respect of dependent's benefits. The Child Support Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Scheme of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the Principal Civil Service Pension Scheme. The Child Support Agency meets the cost of pension cover provided for the people they employ by payment of charges calculated on an accruing basis. In respect of the defined contribution elements of the Principal Civil Service Pension Scheme, the Child Support Agency recognises the contributions payable for the year.

There is a separate scheme statement for the Principal Civil Service Pension Scheme as a whole. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

1.11 Early departure costs

The Child Support Agency meets the additional costs of benefits beyond the normal Principal Civil Service Pension Scheme benefits, in respect of employees who retire early, by paying the required amounts annually to the Principal Civil Service Pension Scheme over the period between early departure and normal retirement date. The Child Support Agency provides for this in full when the early retirement programme becomes binding on the Child Support Agency by establishing a provision for the estimated payments, discounted by Her Majesty's Treasury discount rate of 2.2 per cent (2005/06, 2.2 per cent) in real terms.

1.12 Provisions

The Child Support Agency provides for legal or constructive obligations, which are of uncertain timing or amount at the Balance Sheet date, on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk adjusted cash flows are discounted using Her Majesty's Treasury discount rate of 2.2 per cent (2005/06, 2.2 per cent) in real terms.

1.13 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Child Support Agency discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Government Accounting.

These comprise:

- items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which, prior to the Department for Work and Pensions entering into the agreement, are reported to Parliament by Departmental Minute; and
- all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of the Accounts), which are required by the Government Financial Reporting Manual to be noted in the Accounts.

Where the time value of money is material, contingent liabilities, which are required to be disclosed under FRS 12, are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.14 Leases

There are no finance leases (as defined by SSAP 21) within the Child Support Agency.

Other leases are regarded as operating leases and the rentals are charged to the Operating Cost Statement on a straight-line basis over the term of the lease.

1.15 Private Finance Initiative (PFI) transactions

PFI transactions have been accounted for in accordance with Her Majesty's Treasury Technical Note No. 1 (Revised), entitled "How to account for PFI transactions", as required by the Government Financial Reporting Manual.

Where the balance of the risks and rewards of ownership of the PFI asset are borne by the PFI operator, the PFI payments are recorded as an administration cost. Where the Child Support Agency has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract. Where at the end of the PFI contract a property reverts to the Child Support Agency, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year.

Where the balance of risks and rewards of ownership of the PFI asset is borne by the Child Support Agency, the asset is recognised as a fixed asset and the liability to pay for it is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

The Child Support Agency utilises services provided under PFI contracts held centrally by the Department for Work and Pensions for which full details are disclosed in the Department for Work and Pensions' Resource Account.

1.16 Value Added Tax (VAT)

Most of the activities of the Child Support Agency are outside the scope of VAT and in general output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT. Administration income is stated net of VAT.

As the Department for Work and Pensions is treated as a single entity for VAT purposes, any VAT balances are transferred to the Department for Work and Pensions' Head Office and Corporate and Shared Services to be held, paid over or reclaimed centrally.

1.17 Third-party assets

The Child Support Agency holds, as custodian, certain monies belonging to third parties. These are not recognised in the Accounts since neither the Child Support Agency nor the Government more generally has a direct beneficial interest in them.

1.18 Northern Ireland Child Support Agency

The Child Support Agency's Belfast centre is housed in Great Northern Tower along with the Northern Ireland Child Support Agency. All people working in the Child Support Agency's Belfast centre are employees of the Department for Social Development Northern Ireland, which initially bears the cost of running the centre. All of these costs are reimbursed by the Child Support Agency and are included in the Operating Cost Statement.

2 Staff numbers and related costs

a) Staff costs consist of:

	2006/07 Directly employed people £'000	2006/07 Others £'000	2006/07 Total £'000	2005/06 Total £'000
Wages and salaries	211,498	8,400	219,898	193,877
Employers' National Insurance costs	13,958	176	14,134	11,972
Superannuation and pension costs	37,173	10	37,183	34,292
Total	262,629	8,586	271,215	240,141

The Principal Civil Service Pension Scheme is an unfunded multi-employer defined benefit scheme but the Child Support Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006/07 normal employers' contributions of £36.4 million (2005/06, £33.2 million) were payable to the Principal Civil Service Pension Scheme at one of four rates in the range 16.2 per cent to 24.6 per cent per cent (2005/06, 16.2 per cent to 24.6 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employers' contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Outstanding contributions amounting to £3.5 million (2005/06, £2.7 million) were payable to the Civil Superannuation Vote at 31 March 2007 and are included in creditors.

Employees joining the Child Support Agency after 1 October 2002 could opt to open a Partnership Pension Account, which is a stakeholder pension with an employers' contribution. Employer's contributions of £93,319 (2005/06, £63,793) were paid to one or more of a panel of four appointed stakeholder pension providers. Employers' contributions are age-related and range from 3 per cent to 12.5 per cent (2005/06, 3 per cent to 12.5 per cent) of pensionable pay. Employers also match employee contributions of up to 3 per cent of pensionable pay. In addition, employers' contributions were paid to the Principal Civil Service Pension Scheme to cover the cost of the future provision of lump sum benefits on death-in-service and ill-health retirement of these employees. Contributions due to the Partnership Pension providers at the Balance Sheet date were nil. Contributions prepaid at that date were nil.

During the year 14 people (2005/06, 14 people) retired on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £17,141 (2005/06 £17,311).

b) Average number of people employed

The average number of full-time equivalent people employed (including senior management, staff on secondment or loan into the Child Support Agency and agency/temporary staff, but excluding staff on secondment to other organisations) during the year was as follows:

	2006/07 Directly employed people	2006/07 Others	2006/07 Total	2005/06 Total
Total	11,040	346	11,386	10,432

3 Non-staff administration costs

	Notes	2006/07 £'000	2005/06 £'000
Computer systems costs	5c	31,979	79,422
Non-cash items	4	105,795	58,989
Rentals under operating leases:			
Hire of plant and machinery		696	370
PFI service charges		18,331	0
Compensation payments to clients	21	3,317	3,853
Interest payable	3a/20/21	392	285
Advance payments of maintenance	20/21	1,222	962
Accommodation costs		9,087	24,516
Goods and services		42,411	28,320
Refund payments		5,800	3,887
Deferred debt payments		441	443
Bad debt written off	8e	1,997	719
Services provided by Northern Ireland Child Support Agency	3b	30,176	23,486
		251,644	225,252
The above totals are comprised of the following:			
Cash items – directly charged		145,849	166,263
Non-cash items – provided without the transfer of cash			
Notional recharged	5	101,298	48,057
Other		4,497	10,932
Total	4	105,795	58,989
		251,644	225,252

a. Interest payable represents payments to clients in lieu of bank interest lost due to late maintenance payments.

b. Services are provided through a Service Level Agreement by the Northern Ireland Child Support Agency, on behalf of the Child Support Agency. The costs are reimbursed during the course of the year. These costs represent the cost of people and other associated costs.

4 Non-staff administration costs: Non-cash items

	Notes	2006/07 £'000	2005/06 £'000
Notional costs	5	101,298	48,057
Depreciation of fixed assets	7	4,194	5,284
Loss on disposal of fixed assets		0	126
Impairment of fixed assets	7	176	1,510
Amortisation of accommodation prepayment	8	122	122
Amortisation of child support computer system prepayment		0	2,885
Provisions:			
Doubtful debts			
Movement in year	14	(333)	0
Early departure			
Movement in year	11	327	974
Unwinding of discount	4a/11	11	31
	3	105,795	58,989

a. The unwinding of the discount represents the effect of recalculating the present value of the provision before the impact of the uplift has been taken into account.

5 Non-cash items: Notional costs

Certain services are provided and received by the Child Support Agency without the transfer of cash. Amounts are included in the net cost of operations to reflect these costs and are comprised as follows:

	Notes	2006/07 £'000	2005/06 £'000
No Cost of capital charge		(480)	0
Auditors remuneration and expenses:			
Administration Account	5a	65	55
Client Funds Account	5a	320	230
Northern Ireland notional costs		0	284
Inter business unit charges:			
IT non-cash charges	5c	71,000	10,892
Services provided and costs incurred by other departmental business units on behalf of the Child Support Agency	5b	68,235	37,191
Less:			
Services provided and costs incurred by the Child Support Agency on behalf of other departmental business units		(37,842)	(595)
	3	101,298	48,057

- a. The auditors remuneration represents the cost for the audit of the Accounts carried out by the Comptroller and Auditor General.
- b. Services provided and costs incurred by other departmental business units include £21.4 million (2005/06, £33.9 million) of corporate recharges for finance, personnel, commercial management, postage and assurance.

No charge was made for accommodation costs provided by the Department for Work and Pensions' Head Office and Corporate and Shared Services; PRIME charges were levied directly to the Child Support Agency in 2006/07, whereas in 2005/06 they were charged to the Department for Work and Pensions' Head Office and Corporate and Shared Services and recharged to the Child Support Agency.

- c. During 2005/06 new computer systems and telephony contracts came into effect, namely TREDSS and ICONS. Prior to this, the Child Support Agency had held its own computer systems and telephony cash costs budget and been invoiced directly, accounting for these costs as computer systems and telephony cash costs (See Note 3).

As a result of the new contracts, computer systems and telephony costs budgets were transferred from the Child Support Agency to a corporate services department in the Department for Work and Pensions' Head Office and Corporate and Shared Services.

In 2006/07 the computer systems and telephony costs have been notionally recharged to the Child Support Agency from the Department for Work and Pensions' Head Office and Corporate and Shared Services, as reflected in the notional costs Note 5.

6 Income and appropriations-in-aid

Administration Income

Administration income not appropriated-in-aid (i.e. transferred to the Consolidated Fund (supply)) is analysed for resource budget purposes between that which is included in public expenditure and that which is not. In 2006/07 all administration income not classified as appropriations-in-aid was included in public expenditure.

	2006/07			2005/06		
	Appropriated -in-aid	Payable to Consolidated Fund	Total	Appropriated -in-aid	Payable to Consolidated Fund	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Administration income						
Fees and charges to clients	(132)	0	(132)	(126)	0	(126)
Fees and charges to other government departments	(2,383)	0	(2,383)	(44)	0	(44)
Amortisation of Government Grant Reserve	(1)	0	(1)	(1)	0	(1)
	(2,516)	0	(2,516)	(171)	0	(171)

An analysis of income from services provided to external and public sector clients is as follows:

	2006/07			2005/06		
	Income £'000	Full cost £'000	Surplus /Deficit £'000	Income £'000	Full cost £'000	Surplus /Deficit £'000
Sundry income	(132)	132	0	(126)	126	0
Income from other government departments	(2,383)	2,383	0	(44)	44	0
Amortisation of Government Grant Reserve	(1)	1	0	(1)	1	0
	(2,516)	2,516	0	(171)	171	0

7 Tangible fixed assets

	Notes £'000	Computer systems £'000	Plant and machinery £'000	Furniture and fittings £'000	Motor vehicles £'000	Total £'000
Cost or valuation						
As at 1 April 2006		27,060	1,749	585	1,459	30,853
Prior year additions	7a	0	0	0	0	0
Additions	7a	(1)	0	37	0	36
Transfers in	7c	1,184	1	(1)	475	1,659
Disposals		0	0	0	0	0
Transfers out	7c	(15,279)	(858)	0	(273)	(16,410)
Revaluation	7b/13	44	(2)	11	15	68
Impairment	7b	(910)	(2)	0	0	(912)
Reclassification	7f	405	(405)	0	0	0
As at 31 March 2007		12,503	483	632	1,676	15,294

Depreciation

As at 1 April 2006		20,855	1,292	205	724	23,076
Prior year depreciation		0	(6)	0	(20)	(26)
Charged in year	7d	3,856	12	59	267	4,194
Transfers in	7c	1,100	8	0	11	1,119
Disposals		0	0	0	0	0
Transfers out	7c	(14,760)	(858)	0	(238)	(15,856)
Revaluation depreciation	7b/13	38	(1)	4	6	47
Impairment	7b	(735)	(1)	0	0	(736)
Reclassification		0	0	0	0	0
As at 31 March 2007		10,354	446	268	750	11,818
Net book value as at 31 March 2007		2,149	37	364	926	3,476
Net book value as at 1 April 2006		6,205	457	380	735	7,777

All tangible fixed assets are owned by the Child Support Agency.

- Total additions in the year were £0.04 million (2005/06, £0.22 million).
- The net increase in asset values arising from the revaluation of fixed assets of £0.07 million (2005/06, £0.02 million) and the related backlog depreciation of £0.05 million (2005/06, £0.01 million) have been transferred to the Revaluation Reserve (see Note 13). The devaluation (impairment) in fixed asset values arises from the movement of Her Majesty's Treasury Producer Price Indices within the year. The permanent decrease in value of £0.2 million (2005/06, £1.5 million) in excess of previous revaluation has been charged to the Operating Cost Statement (see Note 4).
- Transfers in of assets with a net book value of £0.8 million (2005/06, £1.4 million) includes computer system equipment of £0.4 million (2005/06, £0.8 million) and £0.4 million (2005/06, £0.5 million) of motor vehicles purchased on behalf of the Child Support Agency.

Transfers out of £0.6 million (2005/06, £0.3 million) are to other departmental agencies or core department, on a gross basis, that is, at depreciated replacement cost together with any related balance on the Revaluation Reserve.

- Total depreciation in the year was £4.2 million (2005/06, £5.3 million), which was all charged to the Operating Cost Statement.

e. Cash flow reconciliation:

	Notes	2006/07 £'000	2005/06 £'000
Capital creditor and accruals as at 1 April 2006	10	41	9
Capital additions	7a	36	217
Capital creditor and accruals as at 31 March 2007	10	0	(41)
Purchases of tangible fixed assets per Cash Flow Statement	14(ii)	77	185

f. The reclassification of £0.4m relates to some telephony assets that were previously reported as plant and machinery now being classified as computer systems.

8 Debtors

	Notes	2006/07 £'000	2005/06 £'000
Amounts falling due within one year:			
Deposits and advances	8a	132	28
Accommodation prepayment		122	122
Other prepayments and accrued income		358	249
Intra-Department for Work and Pensions		1,652	1,787
Other government departments		1,826	2,490
Trade debtors		867	394
Other debtors	8d/8e	12,644	12,902
Provision for doubtful debts	8d/8e	(12,632)	(12,965)
		4,969	5,007
Amounts falling due after one year:			
Deposits and advances	8b	126	169
Accommodation prepayment	8c	2,441	2,563
		2,567	2,732

a. Deposits and advances due within one year include £17,998 (2005/06, £23,300) of house purchase advances due from 24 people (2005/06, 31).

b. Deposits and advances due after one year comprise £126,218 (2005/06, £169,129) of house purchase advances due from 23 people (2005/06, 26).

c. The movement in the accommodation prepayment due after one year is due to amortisation.

d. A provision for bad debts against fees was made in earlier years, in order to allow for the potential non-payment of fees. The movement on the provision and associated debtor account for the year is as follows:

	Debtor £'000	Provision £'000	Net £'000
Balance as at 1 April 2006	12,350	(12,350)	0
Written off in the year	0	0	0
Recovered	0	0	0
Increase in provision	0	0	0
Balance as at 31 March 2007	12,350	(12,350)	0

e. A provision for bad/doubtful debts against payments recoverable from clients.
The movement on the provision and associated debtor account for the year is as follows:

	Debtor £'000	Provision £'000	Net £'000
Balance as at 1 April 2006	1,781	(615)	1,166
Written off in the year	(4)	1,997	1,993
Recovered	(1,964)	0	(1,964)
Additions	1,790	(1,664)	126
Balance as at 31 March 2007	1,603	(282)	1,321

Intra-government balances	Amounts falling due within one year		Amounts falling due after one year	
	2006/07 £'000	2005/06 £'000	2006/07 £'000	2005/06 £'000
Balances with other government departments	1,826	2,490	0	0
Intra-Department for Work and Pensions balances	1,652	1,787	0	0
Balances with bodies external to government	1,491	730	2,567	2,732
	4,969	5,007	2,567	2,732

9 Cash at bank and in hand

	2006/07 £'000	2005/06 £'000
Balance as at 1 April 2006	1	1
Decrease in cash for the year	(1)	0
Balance as at 31 March 2007	0	1
The following balances were held as at 31 March 2007		
Cash in hand	0	1
	0	1

The policy of the Department for Work and Pensions is to hold all operational bank accounts centrally in the Department for Work and Pensions' Head Office and Corporate and Shared Services. Therefore, the Child Support Agency's bank balance is reported in the Head Office and Corporate and Shared Services Accounts, in line with the treatment of bank accounts in all other Executive Agencies.

10 Creditors

	2006/07 £'000	2005/06 £'000
Amounts falling due within one year:		
Taxation and National Insurance	4,783	5,218
Superannuation	3,481	2,650
Trade creditors	1,693	3,540
Other creditors	25	251
Other government departments	20	0
Accruals and deferred income	25,802	7,438
	35,804	19,097

Intra-government balances

	Amounts falling due within one year		Amounts falling due after one year	
	2006/07 £'000	2005/06 £'000	2006/07 £'000	2005/06 £'000
Balances with other government departments	8,284	7,868	0	0
Balances with bodies external to government	27,520	11,229	0	0
	35,804	19,097	0	0

11 Provision for liabilities and charges

	2006/07 £'000	2005/06 £'000
Early departure and pension provision (gross)	1,133	1,411

Early departure and pension provision

	Notes £'000	Gross Provision £'000	2006/07	
			Prepay- ment £'000	Net provision £'000
Balance as at 1 April 2006		1,411	0	1,411
Amounts utilised in year		(616)	0	(616)
Increase in provisions:				
New entrants	4	298	0	298
Movement	4	6	0	6
Uplift	4	23	0	23
		327	0	327
Unwinding of discount	4	11	0	11
Balance as at 31 March 2007		1,133	0	1,133
Payable within one year		499	0	499
Payable after one year		634	0	634

12 Reconciliation of net administration cost to movements in General Fund

	Notes	2006/07 £'000	2005/06 £'000
Net administration cost		(520,343)	(465,222)
Financing from Consolidated Fund (supply) – current year	14 (iii)	400,413	403,769
Notional charges	5	101,298	48,057
Computer system recharges to Northern Ireland Child Support Agency		(2,337)	0
Transfer to General Fund of realised element of Revaluation Reserve	13	1	9
Non-cash capital additions		11	1,048
Other		4	0
Net movement in General Fund		(20,953)	(12,339)
General Fund as at 1 April 2006		(5,027)	26,703
Transfer to the Department for Work and Pensions' Head Office and Corporate and Shared Services		0	(19,391)
General Fund as at 31 March 2007		(25,980)	(5,027)

The General Fund represents the historical cost of the assets employed by the Child Support Agency in its operations.

13 Reserves

Revaluation Reserve	Notes	2006/07 £'000	2005/06 £'000
Balance as at 1 April 2006		35	36
Arising on revaluation during the year	7	21	8
Transfer to General Fund of realised element of Revaluation Reserve	12	(1)	(9)
Balance as at 31 March 2007		55	35

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

Government Grant Reserve	Notes	2006/07 £'000	2005/06 £'000
Balance as at 1 April 2006		1	2
Additions during the year		0	0
Amortisation	6	(1)	(1)
Balance as at 31 March 2007		0	1

14 Cash flow notes

	Notes	2006/07 £'000	2005/06 £'000
i) Reconciliation of administration cost to operating cash inflow			
Net administration cost		(520,343)	(465,222)
Adjustment for non-cash transactions	4/6	103,457	58,988
Decrease in debtors	8	242	35,374
Increase/(decrease) in creditors	10	16,712	(9,702)
Amortisation of prepayments		(122)	(3,007)
Use of provisions – doubtful debts	4	333	0
Use of provisions – early departure	11	(616)	(624)
Net cash outflow from operating activities		(400,337)	(384,193)

(ii) Analysis of capital expenditure and financial investment			
Tangible fixed asset additions	7e	(77)	(185)
Net cash outflow from investing activities		(77)	(185)
(iii) Analysis of financing			
Financing from Consolidated Fund (supply) – current year	12	400,413	403,769
Adjustment to Cash Flow arising from restatement		0	(19,391)
Net financing from Consolidated Fund (supply)		400,413	384,378
(iv) Reconciliation of net cash requirement to change in cash			
Net cash requirement		(400,414)	(384,378)
Financing from Consolidated Fund (supply) – current year		400,413	403,769
Adjustment to Cash Flow arising from restatement		0	(19,391)
Decrease in cash for the year		(1)	0

15 Capital Commitments

There were no capital commitments at 31 March 2007 (31 March 2006 – none).

16 Commitments under non-PFI contracts

Operating leases

The Child Support Agency has entered into operating lease contracts for the provision of photocopiers. At 31 March 2007 the Child Support Agency was committed to making the following payments during the next year, analysed according to the period in which the lease expires:

	31 March 2007 £'000	31 March 2006 £'000
Expiry within one year	24	79
Expiry after one year but not more than five years	252	173
Expiry thereafter	0	0
	276	252

17 Commitments under PFI contracts

Off Balance Sheet

In 1998, the Department for Work and Pensions entered into a PFI Partnership Agreement (PRIME) under which the former Department of Social Security transferred ownership and management of its Estate to a private sector partner, in exchange for the provision of fully serviced accommodation. This continues to be classed as a PFI arrangement and is disclosed in the Department for Work and Pensions' Head Office and Corporate and Shared Services Accounts.

18 Other financial commitments

The Department for Work and Pensions has entered into the following non-cancellable contracts (which are not leases or PFI contracts).

The TREDSS contract came into effect during 2005/2006. The Department for Work and Pensions has determined that TREDSS does not meet the criteria to be disclosed as a PFI contract. Details of other financial commitments under this arrangement are held in the Department for Work and Pensions' Head Office and Corporate and Shared Services Accounts.

Similarly, the Department for Work and Pensions has determined that the ICONS contract (created following the consolidation of two existing telephony contracts during 2005/06) does not constitute a PFI arrangement. Details of other financial commitments under this arrangement are reported in the Department for Work and Pensions' Head Office and Corporate and Shared Services Accounts.

19 Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Because of the largely non-trading nature of its activities and the way Government Agencies are financed, the Child Support Agency is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Child Support Agency has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing the Child Support Agency in undertaking its activities.

a. Liquidity risk

The Child Support Agency's net revenue resource requirements and largely its capital expenditure, are financed by resources voted annually by Parliament. The Child Support Agency is not, therefore, exposed to significant liquidity risks.

b. Foreign currency risk

As the Child Support Agency does not carry out transactions in foreign currency and all material assets and liabilities are denominated in sterling, the Child Support Agency is not exposed to currency risk.

c. Interest rate risk

All of the Child Support Agency's financial assets and liabilities carry nil or fixed rates of interest and it is not therefore exposed to interest rate risk. The interest profile of the Child Support Agency's financial liabilities and assets has therefore not been disclosed separately.

d. Fair values

Fair values of financial assets and liabilities are not significantly different from the book values since, in the calculation of book values, the expected cash flows have been discounted by the real rate set by Her Majesty's Treasury of 2.2 per cent (2005/06, 2.2 per cent).

20 Contingent liabilities disclosed under FRS 12

The Child Support Agency operates a discretionary scheme for certain qualifying cases whereby a lump sum payment of arrears is made to a parent with care before that money is collected by the Child Support Agency from the non-resident parent. Entitlement to such a payment is neither automatic nor referred to in legislation. These payments are shown in the Accounts as advance payments of maintenance and interest payable and in 2006/07 £1.614 million (2005/06, £1.247 million) was charged. At 31 March 2007 a number of cases existed which may subsequently qualify under this scheme, giving rise to a potential liability. The amount of this liability is dependant on a number of factors, the outcome of which for each case is unable to be determined. For this reason no provision has been made in the Accounts. Any future potential liability is mitigated by the fact that this scheme can be withdrawn without notice.

21 Losses and special payments (Administration)

	2006/07		2005/06	
	£'000	Number of cases	£'000	Number of cases
Losses	2,176	2,306	663	3,250
Special payments	5,385	17,202	5,227	11,736
	7,561	19,508	5,890	14,986

Losses

Non-salary related losses totalled 1,900 cases amounting to £2,087,623 (2005/06 2,714 cases amounting to £508,302).

Details of losses over £250,000

There are no cases over £250,000 (2005/06 Nil).

Special payments

	Note	2006/07		2005/06	
		£'000	Number of cases	£'000	Number of cases
Compensation payments		3,317	13,500	3,853	11,515
Advance payments of maintenance		1,222	389	962	514
Interest		392	1,920	285	2,476
Compensation and advance payments	3	4,931		5,100	
Other		107	30	0	
		5,038	15,839	5,100	14,505

Details of Special payments over £250,000

There are no individual cases over £250,000 (2005/06 Nil).

22 Related party transactions

The Department for Work and Pensions is regarded as a related party. During the year, the Child Support Agency has had a number of material transactions with the Department for Work and Pensions and with other entities for which the Department for Work and Pensions is regarded as the parent: The Pensions Service, Jobcentre Plus, the Department for Work and Pensions' Head Office and Corporate and Shared Services and The Disability and Carers Service. The Child Support Agency has therefore relied upon the exemption available under FRS 8 and has not disclosed transactions between these entities which are shown in the Department for Work and Pensions Consolidated Resource Accounts.

All Directors (including the Child Support Agency's Non-Executive Directors) have provided confirmation that they have no related interests through other directorships/non-executive directorships.

The Child Support Agency maintains a register of Directors' interests in third party organisations and other than already disclosed there were no material transactions with key management during the financial year.

No Board Member, senior executive or other related party has undertaken any material transaction with the Child Support Agency during the year.

23 Authorised date for issue

The Child Support Agency's Annual Report and Accounts are laid before the House of Commons by the Secretary of State of the Department for Work and Pensions. FRS 21 requires The Child Support Agency to disclose the date on which the Annual Report and Accounts are authorised for issue. This is the date on which the certified accounts are dispatched by The Child Support Agency's management to the Secretary of State of the Department for Work and Pensions.

The authorised date for issue is 11 July 2007.

Client Funds Account

Annual Statement of Accounts for the year ended 31 March 2007

Foreword

These Accounts, prepared on a cash basis, show a summary of all of the cash receipts and payments made between non-resident parents, parents with care, the Secretary of State and the Child Support Agency during the financial year ended 31 March 2007. They also record amounts owed by non-resident parents as at 31 March 2007 along with movements in these debt balances during the financial year.

Principal activities

The Child Support Agency offers two services: a calculation-only service and a calculation and collection service. Either parent can ask to use the calculation-only service. Where this service has been requested, the client can still ask to use the calculation and collection service at any time. The calculation and collection service applies where either the parent with care is claiming Income Support or income-based Job Seekers Allowance or at the request of either parent. Under this service, we collect maintenance due from non-resident parents, taking enforcement action where necessary, and pay the amounts collected to parents with care and the Secretary of State as appropriate.

The Client Funds Account is concerned with monies collected and paid out under the calculation and collection service. We are required to keep separate all of the child maintenance monies in this account, which is distinct from the monies used to administer these arrangements, the Administration Account.

Third party assets

The Child Support Agency aims to pay out all maintenance monies collected as soon as possible. In practice these take a number of days to clear through the banking system and there is also an amount of work in progress whilst individual receipts are assigned to the correct cases and processed through our systems. Hence, at any moment in time some cash is held in the account on behalf of parents with care and the Secretary of State. At 31 March 2007 this amount was £15 million.

We also record amounts owed by non-resident parents and accounts for these as debt balances in the Client Funds Account. These amounts represent arrears accumulated over the fourteen year life of the Child Support Agency together with a small amount of ongoing maintenance where the due date has not yet been reached. We do not have the power to write off this debt, which had grown to £3.7 billion by 31 March 2007. Taking into account the age of the debt, limitations on our powers to enforce it, accumulated errors and inaccuracies in many of the individual balances, difficulties in tracing some non-resident parents and their inability to pay in many cases, £1.5 billion of the total balance is estimated potentially to be collectable as at 31 March 2007.

Results for the year on a cash basis

Receipts in 2006/07 amounted to £623 million (2005/06, £610 million) and payments were £622 million (2005/06, £620 million). The amounts are mostly maintenance collections and payments, but also include small amounts for other related items. From its inception in 1993 up to 31 March 2007 we have collected a total of some £5.6 billion in maintenance, 60 per cent of the accumulated amounts charged.

Signed



Stephen Geraghty
Accounting Officer
26 November 2007

Client Funds Account

Statement of Accounting Officer's responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000, Her Majesty's Treasury has directed the Child Support Agency to prepare for each financial year a statement of Accounts in the form and on the basis set out in the Accounts Direction.

The Accounts for the Client Funds Account are prepared on a cash basis and must properly represent the receipts and payments for the financial year and the balance held at the year end.

The Principal Accounting Officer of the Department for Work and Pensions has appointed the Chief Executive of the Child Support Agency as its Accounting Officer. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of all funds for which an Accounting Officer is answerable and for keeping proper records, are set out in the Accounting Officers' Memorandum, issued by Her Majesty's Treasury and published in Managing Public Money.

Client Funds Account

Statement on internal control

1. Scope of responsibility

As Accounting Officer for the Client Funds Account of the Child Support Agency I have responsibility for maintaining a sound system of internal control that supports the achievement of our policies, aims and objectives, whilst safeguarding the public funds for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

I am accountable to the Principal Accounting Officer of the Department for Work and Pensions, the Permanent Secretary, who is appointed by Her Majesty's Treasury. I keep the Permanent Secretary informed of progress and significant issues facing the Child Support Agency during our regular bi-lateral meetings.

2. The context in which we manage risk

The Child Support Agency works in a problematic environment. Twenty five thousand people apply to us for help every month. All of them come to us at a difficult time in their lives. There are problems in gathering information from clients, tracing non-resident parents, taking account of frequent movements in and out of work; and arranging payments. Over its fourteen year life the Child Support Agency has collected £5.6 billion maintenance (and arranged further direct maintenance payments above this), but £3.7 billion accumulated arrears remains uncollected from non-resident parents for many reasons.

This inherent challenge is compounded by the need to deliver a policy which it is now accepted needs a major overhaul, to maintain and as far as possible improve performance, support a caseload of some 1.4 million live cases and collect or arrange more than £800 million in maintenance each year. Our 2006/07 Annual Report explains that we were generally successful in improving daily performance and in delivering the first year of the Operational Improvement Plan, a major overhaul of our systems, practices and organisation, in particular the computer system (CS2), which has performed far below original expectations since going live in 2003.

We have faced significant internal control challenges throughout a period of organisational change. In particular, the need to remain clear about accountabilities and decision making, safeguard clients' funds and personal data, and build security and controls into a range of new systems and processes.

3. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives, to evaluate the likelihood of those risks being realised and their potential impact. The system of internal control has been in place for the year ended 31 March 2007, and up to the date of the approval of the Annual Report and Accounts and accords with Her Majesty's Treasury guidance, except for the matters noted below.

4. Capacity to handle risk

The Child Support Agency strengthened its leadership team in 2006/07. In particular, four executive directors were appointed from outside the Child Support Agency during the year bringing a broad range of skills and experience from the public and private sectors.

The Executive Team recognises the importance of risk management of which each of its members has practical experience. The team has actively managed the risks that have emerged during the year and demonstrated leadership through a series of measures. These have included conducting quarterly risk workshops, setting a risk based forward looking agenda, holding regular Programme Board meetings specifically addressing risks to

the successful delivery of the Operational Improvement Plan and setting up a new sub-committee, the Planning, Performance and Risk Forum, which identifies and escalates risks as appropriate.

The Child Support Agency developed a number of tools in 2006/07 including a risk management framework, standardised guidance, templates, desk aids and a risk management intranet site. These tools were used to drive up the quality of risk management during the year through a programme of awareness sessions and risk workshops. Evaluation of this activity produced encouraging results. The outcome of the annual Risk Self-Assessment Framework survey of Her Majesty's Treasury (led by the Department for Work and Pensions' Corporate Risk Team) was much more favourable than previous reports.

5. The risk and control framework

The Child Support Agency works within the risk and control framework laid down by the Department for Work and Pensions and participates fully in its Planning, Performance and Risk Committee which is responsible for identifying, prioritising and escalating key strategic risks as appropriate. We also adopted the new risk management methodology of the Department for Work and Pensions in August 2006 and fully completed implementation by March 2007.

During the course of 2006/07 we established clear risk processes and structures across all levels of the business through a comprehensive set of risk registers and team risk discussions at all key governance and management forums.

At the end of 2006/07 all Executive Team members were required to provide letters of assurance confirming that they had complied with the Department for Work and Pensions and Child Support Agency risk procedures. Specific concerns raised have been reflected as appropriate within this statement.

6. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Child Support Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

Throughout the year an improved governance structure has been in place to provide strategic leadership and ensure that the Operational Improvement Plan is delivered successfully. The key governance bodies are described below.

Child Support Agency Board. This is an advisory board which meets eight times per year bringing together a number of highly experienced non-executive directors with the Child Support Agency's executive directors.

Executive Team. This meets on a weekly basis and is the primary decision-making forum for the Child Support Agency.

Programme Board. This is the main governance body for the Operational Improvement Plan, on which key stakeholders including delivery partners are represented. It is supported by a programme sub-committee which meets on a weekly basis.

Audit Committee. This comprises non-executive directors and has provided strong leadership and advice on internal control matters and related assurances through six meetings during 2006/07.

Standards Committee. This committee was re-launched mid-year under a new non-executive chair and met twice in the latter half of the year. Whilst noting that the Child Support Agency failed to improve accuracy

performance during 2006/07 and hence missed its target, the Standards Committee also acknowledged and endorsed the new approach to accuracy checking and quality assurance, which was deployed from April 2007. As a result of a comprehensive programme of team leader training and much sharper management focus combined with the new checking and assurance regime, a step improvement in accuracy performance has been achieved during the first half of the 2007/08 financial year.

Management Forums. Meetings are held on a monthly basis for the new national lines of business and are used to drive service delivery performance and process compliance. An overarching service delivery forum is also held on a monthly basis to drive end to end service delivery across the lines of business.

There were many assurances available to the Child Support Agency in 2006/07 including a comprehensive internal audit programme, the interim and year end audits performed by the National Audit Office, a number of externally commissioned reviews, various internal reviews and assurances including the Executive Team members' letters of assurance to the Chief Executive.

7. Significant internal control problems

Significant control weaknesses relevant to the client fund accounts identified in the Operational Improvement Plan and the 2006/07 internal audit annual assurance report are computer systems, accounting for client funds, management information, compliance and governance. Action plans have been developed to address each of these.

Computer Systems. We have experienced major problems with computer systems. As they relate to client funds these include weaknesses in the general throughput of work resulting in "stuck" cases and a high volume of manual payments, accounting for client funds and management information. Collectively, these weaknesses have necessitated a complete overhaul of the CS2 system. In 2006/07 a prioritised programme of work was agreed with key technology suppliers to rectify some of the remaining problems and to support other more fundamental changes throughout the timeframe of the Operational Improvement Plan. One tactical release took place in December 2006. Two further, more far reaching, releases will introduce a significantly improved business operating environment.

Accounting for Client Funds. We operate separate general ledgers for each of our two operational systems, CSCS and CS2, and a single bank account, which is reconciled to the ledgers on a daily basis. The new scheme system CS2 lacks sub-ledger functionality and hence case level balances, giving rise to a serious weakness in accounting and control. Further, due to technical problems with the system, a large number of outstanding items has built up on the bank reconciliation since CS2 was implemented in 2003. We have for some time been working on these long standing and difficult problems and have initiatives in train to address the issues. Firstly, all reconciling items are recorded and analysed in a database, with each item backed up by suitable documentation. The receipts and payments statement is prepared from this analysis. Secondly the total number of reconciling items has already been managed down during the financial year from its highest point; a small dedicated team is in place to clear the bulk of the remaining items by the end of financial year 2007/08. Thirdly, the programme of work on our computer systems, referred to above, includes changes to address the underlying causes of many of the reconciling items and a major upgrade to the CS2 general ledger system to include sub-ledger functionality

Management Information. Lack of robust management information has been an issue for us. During 2005/06, managers were reliant on a mixture of system generated and clerical data, which was incomplete and often inaccurate. In 2006/07 the position steadily improved. Amongst other initiatives, a database was developed comprising complete extracts of all debt records from both CSCS and CS2. Its primary purpose was to provide information and analysis in support of our debt collection strategy, but it has also been reconciled to the general ledger balances thus providing much better information on and assurance of the overall debt balance as

reported. The upgrade to the general ledger system referred to above will provide further improvements during 2007/08 for those cases held on CS2.

Compliance. Non-compliance with both procedures and guidance has been a long-standing problem for us, hampering our ability to provide a consistent standard of service to clients. To address this a new organisational model has been implemented based on national lines of business backed up by a full training programme for team leaders which was completed by year end. This has been followed up with the deployment of a new national quality assurance team and will be further strengthened by the programme of changes to CS2 for which processes have been redesigned. One indication of improvement is accuracy performance. Whilst this was flat through 2006/07 as organisational and process changes were being made it has improved sharply in the early months of 2007/08 as the changes have taken full effect. Improving process compliance and accuracy performance remain high priorities for us.

Governance. The main governance bodies operated effectively throughout 2006/07 and remaining gaps in the governance framework were filled during the course of the year. In particular the Standards Committee, which had not met for over a year, was re-formed in November 2006, the managerial letters of assurance process was substantially improved, delegated authorities for decision-making were clarified and risk management processes were overhauled.

8. Conclusion

We have made some progress during 2006/07 in addressing the long-standing problems with client fund systems and accounting, mostly through the development and use of tactical solutions external to the main operational and accounting systems. A more robust and longer-term solution in the form of a major upgrade to CS2 is under development and scheduled for deployment during 2008. This cannot, however, provide a complete solution to the problem of errors and inaccuracies in debt balances which have accumulated over the fourteen year life of the Child Support Agency. A combination of additional powers and targeted resources will be required to address these over a number of years until the existing schemes are finally closed down.

I confirm that the key areas for improvement will be regularly monitored during the year to ensure that progress is made.

Signed



Stephen Geraghty
Accounting Officer
26 November 2007

Client Funds Account

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

I certify that I have audited the Child Support Agency Client Funds Account for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. This comprises the Receipts and Payments account, Statement of Balances and notes relating to receipts and payments and the debt position. This account has been prepared on a cash basis in the form directed by H M Treasury, with the exception of Note 6 detailing the debt position which has been prepared on an accruals basis.

Respective responsibilities of the Agency, the Chief Executive and Auditor

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Foreword and financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Agency's and Chief Executive's Responsibilities.

My responsibility is to audit the account in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the account properly presents the receipts and payments and gives a true and fair view of the outstanding debt and whether the account has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information given in the Foreword, is consistent with the financial statements. I also report whether in all material respects the financial transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the account. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the account and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the account is free from material misstatement, whether caused by fraud or error and that, in all material respects, the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the account.

Qualified opinions arising from errors in maintenance assessments

As explained in paragraphs 10 to 12 of my report, my audit found that certain receipts from non-resident parents (and the subsequent payment over to the parent with care or Secretary of State) were for wrong amounts because of errors in the underlying maintenance assessments. I estimate that receipts from non-resident parents included in the Client Funds Account as £622 million are misstated due to overpayments which could amount to £14.9 million and underpayments of around £22.9 million.

Also, as explained in paragraphs 13 to 17 of my report, my audit found that amounts due at 31 March 2007 from non-resident parents in respect of maintenance assessments, as reported in Note 6 to the accounts, were misstated mainly because of combinations of errors made in 2005-06 and earlier years. Whilst I am not able to provide a precise estimate of the level of error, the level of gross error is material and is in excess of £80 million.

Audit Opinion

In my opinion:

- the Child Support Agency's Client Funds Receipts and Payments Account properly presents the receipts and payments for the year ended 31 March 2007;
- except for the adjustments required in respect of errors in the underlying maintenance assessments and uncertainty surrounding the accuracy of provisions for non-collectability, Note 6 to these accounts gives a true and fair view of the gross and net debt outstanding as at 31 March 2007;
- the account has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder; and
- information given within the Foreword is consistent with the financial statements.

Audit Opinion on Regularity

- In my opinion, except for the adjustments necessary to correct the errors in the underlying maintenance assessments underpinning the receipts and payments and debt balances, the financial transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

Details of these matters are set out in paragraphs 3 to 5 of my report.



John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

29 November 2007

Client Funds Account

Receipts and Payments Statement for the year ended 31 March 2007

	Notes	2006/07 £'000	2005/06 £'000
Receipts	2	621,979	608,931
Bank interest	3	812	1,036
Total receipts		622,791	609,967
Less payments to:			
Parents with care	2	521,207	502,332
Secretary of State	2	93,391	109,283
Non-resident parents/employers	2	7,266	7,994
Child Support Agency fees and Court fees	2	2	2
Total payments		621,866	619,611
Net receipts / (payments)		925	(9,644)
Balance as at 1 April 2006		14,155	23,799
Balance as at 31 March 2007		15,080	14,155

Statement of Balances as at 31 March 2007

	2006/07 £'000	2005/06 £'000
Funds awaiting clearance	8,179	7,739
Cleared funds awaiting distribution	6,901	6,416
Balance on bank account	15,080	14,155

The Notes on pages 77 to 83 form part of these Accounts.

Signed



Stephen Geraghty
Accounting Officer
26 November 2007

Client Funds Account

Notes to the Accounts for the year ended 31 March 2007

1 Statement of accounting policies

The Accounts have been prepared on a cash basis and in the form directed by Her Majesty's Treasury.

1.1 Accounting convention

The Accounts have been prepared under the historical cost convention.

1.2 Estimation techniques

The calculation of the provision made against debt is based on likely collectability and is calculated on an analysis of cases in a statistically valid sample of the total caseload with reference to factors likely to influence ability to collect the debt.

In relation to the Receipts and Payments Statement

2 Receipts and payments

2.1 Receipts from clients relate to child maintenance and fees collected from non-resident parents by the Child Support Agency for payment to parents with care of children (maintenance) or to the Secretary of State (maintenance) and to the Child Support Agency (fees).

2.2 The maintenance received quoted in the Receipts and Payments Statement differs from the receipts total shown in movements on amounts outstanding (see Notes 6.0 and 6.1). This is due, for example, to timing differences and the exclusion of non-maintenance receipts in the amounts shown in the Notes.

2.3 Monies are also received from the Secretary of State to refund non-resident parents in cases where an overpayment has been made and the amount is irrecoverable. This totalled £5.800 million (2005/06, £3.887 million) and is disclosed in Note 3 of the Administration Account.

2.4 Included in the £521.207 million (2005/06, £502.332 million) paid to the parents with care is £0.982 million (2005/06, £1.177 million) paid to the Northern Ireland Child Support Agency to fund payments made on our behalf.

3 Interest received and paid

The Child Support Agency receives interest on balances deposited in the Client Funds' bank account. Parents with care may, in specific circumstances, be entitled to receive interest payments. Of the £0.812 million (2005/06, £1.036 million) interest received, £0.082 million (2005/06, £0.074 million) was paid to parents with care. The balance of £0.730 million (2005/06, £0.962 million) was paid to the Secretary of State.

4 Balances on the bank account

The balances relate to monies collected, including interest received, which had not been paid over at year end.

In relation to the third party debt position

5 Amounts outstanding as at 31 March 2007

5.1 Under the Accounts Direction issued by Her Majesty's Treasury, the Child Support Agency is required to disclose the balances outstanding from non-resident parents at the year end, together with the movements in the balances outstanding between the beginning and end of the year.

5.2 There are four types of maintenance assessment:

- full maintenance assessment – where the old rules apply and both the parent with care and the non-resident parent provide us with all the information requested;
- interim maintenance assessment - where the old rules apply and we are unable to obtain sufficient information to make a full maintenance assessment;
- maintenance calculation - where the new rules apply and both the parent with care and the non-resident parent provide us with all the information requested, and;
- default maintenance decision – where the new rules apply and we are unable to obtain sufficient information to make a maintenance calculation.

5.3 The majority of interim maintenance assessments were set at punitive rates in order to encourage compliance of the non-resident parent, and hence take no account of their income or ability to pay.

5.4 Where we are in contact with a non-resident parent, on whom an interim maintenance assessment has been imposed, a proportion of the amount outstanding may prove collectable. This is particularly likely where the non-resident parent is co-operating with us and we are able to replace the interim maintenance assessment with a full maintenance assessment.

5.5 Where an interim maintenance assessment has been imposed on or after 18 April 1995, the subsequent full maintenance assessment will be backdated and will replace the interim maintenance assessment. Any amounts collected under the interim maintenance assessment will be offset against the full maintenance assessment debt due.

5.6 A default maintenance decision is a calculation based on a weekly average wage and is not set at punitive rates.

5.7 Collectability of amounts outstanding

The Child Support Agency undertakes annually a 'Debt Analysis Exercise' to estimate the Collectability of amounts outstanding as at the year end. This 'Debt Analysis Exercise' has established three categories of amounts outstanding, as described below.

Collectable

Amount outstanding which the 'Debt Analysis Exercise' suggested is likely to be collected. This takes into account factors such as regular contact with the non-resident parent, where regular payments are being made or where an arrears agreement has been set up.

Possibly uncollectable

Amount outstanding over which the 'Debt Analysis Exercise' suggested some uncertainty as to whether it will be collected. The amount is considered doubtful where, for example, payments have been infrequent or it has not been possible to establish an arrears agreement or impose a Deduction from Earnings Order.

Since certain of these amounts are likely to be more difficult to collect than others, due for example to unsuccessful attempts to trace a client over a period, a proportion of the amount has been provided against.

Probably uncollectable

Amount outstanding which the 'Debt Analysis Exercise' suggested is likely to be very difficult to collect, due for example, to the lack of contact with, or the personal circumstances of, the non-resident parent. In many of these cases we have suspended recovery action until such time as the individual's circumstances improve.

The probably uncollectable amounts are fully provided against.

An analysis of collectable debt balances is shown below.

		Old Scheme		New Scheme		Total	
		31 March 2007	31 March 2006	31 March 2007	31 March 2006	31 March 2007	31 March 2006
		£'000	£'000	£'000	£'000	£'000	£'000
Collectable	Value of debt	577,836	629,269	146,942	87,059	724,778	716,328
	Percentage of debt	49.00%	50.61%	50.55%	51.34%	49.31%	50.70%
Possibly uncollectable	Value of debt	575,554	588,833	143,763	82,531	719,317	671,364
	Percentage of debt	48.80%	47.36%	49.45%	48.66%	48.93%	47.51%
Deferred debt	Value of debt	25,885	25,308	-	-	25,885	25,308
	Percentage of debt	2.20%	2.03%	-	-	1.76%	1.79%
Total Net Debt		1,179,275	1,243,410	290,705	169,590	1,469,980	1,413,000

5.8 The Child Support Agency has no general power to write off debt, hence the amounts outstanding on individual cases continue to be due in full. We will continue to consider any new facts brought to our attention regarding collectability and we have not waived our discretion to take action in the future to collect any amount outstanding.

6.0 Debt balances as at 31 March 2007

Notes	Maintenance Calculation / Full Maintenance Assessments			Default Maintenance Decision / Interim Maintenance Assessments			Consolidated Debt Position		
	New Scheme	Old Scheme	Total	New Scheme	Old Scheme	Total	New Scheme	Old Scheme	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Opening gross debt balances on:	-	1,453,355	1,453,355	-	889,727	889,727	-	2,343,082	2,343,082
New system	225,529	566,573	792,102	20,567	339,505	360,072	246,096	906,078	1,152,174
Balance as at 1 April 2006	225,529	2,019,928	2,245,457	20,567	1,229,232	1,249,799	246,096	3,249,160	3,495,256
Maintenance charged in year:									
Legacy system (i)	-	246,624	246,624	-	(75,961)	(75,961)	-	170,663	170,663
New system (i)	350,955	207,263	558,218	11,947	56,987	68,934	362,902	264,250	627,152
Total Amounts Due	576,484	2,473,815	3,050,299	32,514	1,210,258	1,242,772	608,998	3,684,073	4,293,071
Less Maintenance Received in year:									
Legacy System (ii)	-	(289,841)	(289,841)	-	(5,326)	(5,326)	-	(295,167)	(295,167)
New System (ii)	(219,440)	(89,114)	(308,554)	(1,223)	(1,634)	(2,857)	(220,663)	(90,748)	(311,411)
Agency payments of deferred debt (ii)	-	(233)	(233)	-	-	-	-	(233)	(233)
Gross Debt as at 31 March 2007 (iii)	357,044	2,094,627	2,451,671	31,291	1,203,298	1,234,589	388,335	3,297,925	3,686,260
Revaluation of IMA (iv)	-	-	-	-	(878,408)	(878,408)	-	(878,408)	(878,408)
Subtotal before provision against debt balance	357,044	2,094,627	2,451,671	31,291	324,890	356,181	388,335	2,419,517	2,807,852
Less:									
Provision for Possibly Uncollectable Debt (iv)	(17,038)	(89,564)	(106,602)	(2,290)	-	(2,290)	(19,328)	(89,564)	(108,892)
Provision for Probably Uncollectable Debt (iv)	(66,189)	(1,150,678)	(1,216,867)	(12,113)	-	(12,113)	(78,302)	(1,150,678)	(1,228,980)
Net Debt balance as at 31 March 2007 (v)	273,817	854,385	1,128,202	16,888	324,890	341,778	290,705	1,179,275	1,469,980

6.1 Debt balances as at 31 March 2006

Notes	Maintenance Calculation / Full Maintenance Assessments			Default Maintenance Decision / Interim Maintenance Assessments			Consolidated Debt Position		
	New Scheme	Old Scheme	Total	New Scheme	Old Scheme	Total	New Scheme	Old Scheme	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Opening gross debt balances on:									
Legacy system	-	1,388,384	1,388,384	-	1,075,186	1,075,186	-	2,463,570	2,463,570
New system	117,410	409,117	526,527	11,203	251,490	262,693	128,613	660,607	789,220
Balance as at 1 April 2005	117,410	1,797,501	1,914,911	11,203	1,326,676	1,337,879	128,613	3,124,177	3,252,790
Reclassification of prior year	-	125,701	125,701	-	(125,701)	(125,701)	-	-	-
Maintenance charged in year:									
Legacy system	-	281,114	281,114	-	(53,441)	(53,441)	-	227,673	227,673
New system	269,536	239,281	508,817	10,394	89,561	99,955	279,930	328,842	608,772
Total Amounts Due	386,946	2,443,597	2,830,543	21,597	1,237,095	1,258,692	408,543	3,680,692	4,089,235
Less Maintenance Received in year:									
Legacy System	-	(341,305)	(341,305)	-	(6,317)	(6,317)	-	(347,622)	(347,622)
New System	(161,417)	(81,741)	(243,158)	(1,030)	(1,546)	(2,576)	(162,447)	(83,287)	(245,734)
Agency payments of deferred debt	-	(623)	(623)	-	-	-	-	(623)	(623)
Gross Debt as at 31 March 2006	225,529	2,019,928	2,245,457	20,567	1,229,232	1,249,799	246,096	3,249,160	3,495,256
Less:									
Provision for Possibly Uncollectable Debt	(9,901)	(66,522)	(76,423)	(886)	(76,347)	(77,233)	(10,787)	(142,869)	(153,656)
Provision for Probably Uncollectable Debt	(54,514)	(1,076,099)	(1,130,613)	(11,205)	(786,782)	(797,987)	(65,719)	(1,862,881)	(1,928,600)
Net Debt balance as at 31 March 2006	161,114	877,307	1,038,421	8,476	366,103	374,579	169,590	1,243,410	1,413,000

6.2 The following notes explain the movement from the opening gross debt balance to the closing net debt balance.

i) Maintenance charged during the year

This comprises assessments made on non-residents parents during the year, outstanding maintenance transferred to and from the Child Support Agency Northern Ireland, and adjustments arising from cancelled or terminated assessments, or where the liability has been reduced, for example because there has been a direct payment between parties which is offset against the maintenance due. The negative balance is a consequence of no new cases being progressed on the legacy system, and where the value of debt migrating from the legacy system exceeds amounts charged during the year on the remaining caseload. There is no impact from a consolidated perspective as the reduction in the legacy system corresponds with the increase in the new system.

ii) Maintenance received during the year

This comprises amounts received from non-residents parents and the Child Support Agency during the year. From April 1995 we have been able to defer some debt indefinitely, provided that non-resident parents meet certain conditions on payment of both regular maintenance and the remaining debt outstanding. In these cases, we can settle the deferred debts to the parents with care from monies provided by the Secretary of State and assume responsibility for the remaining debts. During 2006/07 we paid £0.233 million (2005/06, £0.623 million) under this category. The total of receipts received is £607 million (2005/06 – total £593 million).

iii) Gross debt as at 31 March 2007

The gross debt figure is the amount of debt recognised by the Child Support Agency after allowing for maintenance assessments in the year and after receipts of maintenance and deferred debt have been deducted.

iv) Provisions

We have reviewed the debt balances through the annual 'Debt Analysis Exercise'. Provisions have been calculated against the elements of debt which are deemed not to be collectable, and the amounts have been provided against. An exercise to revalue interim maintenance assessment debt has been carried out. The results indicate that the fair value of interim maintenance assessment debt equates to 27 per cent of the closing value of interim maintenance assessment debt. Therefore a revaluation has been included in the Accounts to bring the value of collectable debt in line with that estimation.

An analysis of movement in provisions is shown below.

	Provision as at 31 March 2007		Provision as at 31 March 2006		Provision movement	
	New Scheme	Old Scheme	New Scheme	Old Scheme	New Scheme	Old Scheme
	£'000	£'000	£'000	£'000	£'000	£'000
Revaluation of interim maintenance assessments	-	(878,408)	-	-	-	(878,408)
Provision for possibly uncollectable debt	(19,328)	(89,564)	(10,787)	(142,869)	(8,541)	53,305
Provision for probably uncollectable debt	(78,302)	(1,150,678)	(65,719)	(1,862,881)	(12,583)	712,203

v) Net debt as at 31 March 2007

The net debt balance is the position as at 31 March 2007 and is after an assessment of the collectability of the debt due to the Child Support Agency.

The debt provided against is excluded from the year end net debt balance, but the individual debt balances continue to be due in full from non-resident parents.

Client Funds Account

Report by the Comptroller and Auditor General

Introduction

1. The Child Support Agency is required by a Treasury Direction to prepare a Client Funds Account, which reports the receipts of child maintenance from non-resident parents, and the level of outstanding debt in respect of these maintenance assessments, and payments to parents with care. I am required, under the Government Resources and Accounts Act 2000, to examine and certify the Child Support Agency Client Funds Account and report the results to Parliament. The administrative costs of the Child Support Agency are reported within a separate account, of which I am also the statutory auditor.

2. This report provides a summary of the significant matters arising from my examination of the 2006-07 Client Funds Account and the basis for the qualification of my opinion. I also provide an update on the progress made by the Child Support Agency in addressing the deep-seated problems which have led me to qualify my opinion on these accounts for the previous 12 years.

Audit Opinion

3. I am required, under International Auditing Standards, to obtain sufficient evidence to satisfy myself that the financial statements properly present the receipts and payments of client funds, in accordance with HM Treasury directions. In addition, in respect of Note 6 to the accounts, I am required to satisfy myself that this is a true and fair view of the debt in respect of unpaid maintenance. Finally, I am required to form an opinion on whether, in all material respects, the transactions are applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them, the “regularity” assertion.

4. In forming my opinion, I examine, on a test basis, evidence supporting the amounts, disclosures and regularity of financial transactions included in the financial statements and assess the significant estimates and judgements made in preparing them. To improve the robustness of this process, I have also drawn on the Child Support Agency’s own work in assessing the accuracy of maintenance assessments.

5. I have qualified the regularity assertion within my opinion on receipts and payments (paragraphs 10 to 12). I have also concluded that a significant proportion of individual debt balances were incorrect (paragraphs 13 to 17) and have qualified my opinion on these balances. This is, in large part, because of historic errors in the underlying maintenance assessments.

Background

6. The Child Support Agency is an executive agency of the Department for Work and Pensions (the Department). It was established in 1993 and is responsible for implementing the 1991 and 1995 Child Support Acts and part of the Child Support, Pensions and Social Security Act 2000. Its main purpose is to ensure that non-resident parents meet their financial responsibilities towards their children. As part of this process the Child Support Agency:

- calculates appropriate levels of maintenance to be paid by non-resident parents;
- where both parties agree, puts in place a direct maintenance agreement, where the payment is made directly to the parent with care and is therefore not reported within this Client Funds Account;
- where a direct maintenance agreement is not in place, collects payments from non-resident parents and passes them on to the parents with care, or the Secretary of State where the parent with care is in receipt of Income Support or income-based Jobseeker's Allowance;
- carries out work to ensure that non-resident parents comply with their maintenance obligations; and
- amends calculations to reflect the changing circumstances of either parent.

7. The Child Support Agency administers maintenance assessments under two distinct sets of rules. The 'old rules' cover cases administered under arrangements dating back to the inception of the Child Support Agency in 1993 and the 'new rules' cover cases administered after the introduction of the Child Support Reforms in March 2003, together with cases migrated from the old rules to the new rules since their introduction. This distinction is important as the two sets of rules are very different both in their application to customers and the systems that administer them.

8. Prior to the introduction of the Child Support Reforms (the Reforms) in March 2003, all applications for child support maintenance were assessed under the 'old rules' against formulae that required Child Support Agency staff to obtain up to 100 pieces of information about the personal circumstances of both the non-resident parent and the parent with care. After the Reforms, a much simplified set of rules was applied for maintenance calculations, combined with revised administrative arrangements aimed at securing better engagement with parents together with a faster turnaround of applications and more accurate assessments.

9. The Reforms were designed to lead to an improved level of service for the Child Support Agency's customers. The successful implementation of the Reforms required significant business restructuring, an improved culture of compliance with standard processes and new computer and telephony systems. In my report Child Support Agency – Implementation of the Child Support Reforms (HC1174; 2005-06), I explained how and where this implementation failed and why, to date, there has been limited success in reducing historic error rates and improving service delivery.

	2006-2007				2005-2006				2004-2005			
	New Rules		Old Rules		New Rules		Old Rules		New Rules		Old Rules	
Performance measure	Target	Achieved	Target	Achieved	Target	Achieved	Target	Achieved	Target	Achieved	Target	Achieved
Last Decision Accuracy	87%	79%	87%	83%	90%	81%	82%	84%	90%	75%	82%	78%

Source: The Child Support Agency.

Receipts and Payments

10. In 2006–07, the Child Support Agency received £622 million (2005-06: £609 million) from non-resident parents and made payments of £521 million (2005-06: £502 million) to parents with care. In addition, £93 million (2005-06: £109 million) was transferred to the Secretary of State, where parents with care were in receipt of Income Support or income-based Jobseeker's Allowance and the Secretary of State had taken action to recover child support maintenance from the non-resident parents.

11. As demonstrated in Figure 1 above, there has been some improvement in the accuracy of assessments over recent years. Errors have nevertheless been made in calculating around 20% of decisions. Where there are errors in the calculation of maintenance, in addition to having an impact on my opinion on receipts, these errors mean that payments to parents with care are also in breach of the rules governing the calculation of maintenance.

12. My opinion on the accounts is based mainly on the value of error, rather than the incidence. Whilst the account properly presents the amounts paid and received, testing carried out by my staff and by the Child Support Agency's own quality assurance team indicated that there was material error in the maintenance assessments underlying the receipts and payments in year. The best available estimates of the financial value of these errors are £14.9 million overstatement and £22.9 million understatement. I have therefore qualified the regularity assertion within my opinion on the basis of the value of error in the assessments.

Amounts owed at 31 March 2007

13. The Child Support Agency is not permitted to write off debt under the provisions of current legislation. Consequently, the gross debt outstanding has accumulated over the period since the Child Support Agency's inception in 1993. In Note 6, the Child Support Agency reports gross outstanding debt, as at 31 March 2007, of £3,686 million (2005-06: £3,495 million). The note also reports net debt outstanding at 31 March 2007, adjusted for provisions for bad and doubtful debt, of £1,470 million (2005-06: £1,413 million).

14. These balances comprise almost 1 million individual cases of debt, some of which date back to the inception of the Child Support Agency. The National Audit Office checked the debt balances for a sample of individual cases. This involved re-performance of the assessments and examination of the charges, transactions and adjustments made throughout the lifetime of each case. The review criteria included both the assessment accuracy and the effective dates of calculated awards. This examination identified errors in a significant number of debt balances, which is consistent with the incidence of error found in previous years and the Child Support Agency's own assessments of accuracy in maintenance assessments over the past 13 years.

15. Because of the scale of debt, both in terms of numbers of cases and value, the wide-ranging differences in the contexts in which these balances have accrued and the age of some of the debt, considerable work would be required in order for me to be able to provide a firm estimate of the level of error. The testing carried out by the National Audit Office has indicated that the total value of error is in excess of £80 million, and I do not consider that it would be cost effective for me to carry out the significant additional work which would be necessary to provide a firm estimate. Whilst unable to provide a firm estimate of the total value of error, I am confident that the error in the gross debt reported in Note 6 to the accounts, including both overpayments and underpayments, is material.

16. To estimate the provisions for bad and doubtful debt, the Child Support Agency carried out an extensive exercise on a sample of debt balances to assess their recoverability. However, given the large number of individual balances which make up the gross debt figure, and the age of some of the balances, the provision is necessarily the Child Support Agency's best estimate and subject to considerable uncertainty.

17. In light of the results of the National Audit Office's testing of debt balances, I have concluded that the amounts recorded in Note 6 as gross and recoverable debt as at 31 March 2007 are likely to be materially misstated, and I have qualified my opinion on the Account in respect of these amounts.

Recent Developments

18. In my Report Child Support Agency – Implementation of the Child Support Reforms(HC1174; 2005-06), I explained how and where this implementation failed and why, therefore, there has been limited success in reducing historic error rates and improving service delivery. The Child Support Reform programme was formally closed in October 2005 and I concluded that the Reforms were a final, but in the event unsuccessful, attempt to deliver the policy that had led to the establishment of the Child Support Agency in 1993.

19. In February 2006, the Child Support Agency launched its Operational Improvement Programme (OIP) and Sir David Henshaw was invited to lead a redesign of the child support system. In its response to Sir David Henshaw's report, in July 2006 the Government signalled its intent to establish a new organisation, the Child Maintenance and Enforcement Commission, to deliver child support. Pending the establishment of this new organisation, the Child Support Agency continues to exist with a strong commitment to intensifying compliance and enforcement efforts. This commitment is reflected in the Child Support Agency's continued commitment to implementing the OIP.

20. The OIP has led to significant changes to the procedures within the Child Support Agency used to manage individual cases. In addition to improving the quality of service provided to clients, the OIP is also designed to improve the accuracy of maintenance assessments, the underlying cause of the qualification of my audit opinion.

21. The Child Support Agency has been successful in broadly maintaining the level of maintenance assessment accuracy during this period of substantial change in procedures. There are also now signs that the OIP is resulting in improved accuracy, as the Child Support Agency's performance information for the first six months of 2007-08 indicates a substantial increase in the decision accuracy rates.

22. The OIP is also addressing significant problems with the major IT systems which are central to both case management and the accounting processes. As noted in the Statement on Internal Control, the Child Support Agency has, since its inception, experienced problems with the accounting information generated by both the Child Support Computer System (CSCS), which records the 'old rules' cases, and CS2 (the new IT system introduced to process applications from 2003) which records the 'new rules' cases and migrated 'old rules' cases.

23. The IT systems were originally designed not only to provide a database, through which to manage casework, but also to generate the information needed to prepare the accounts. Due to weaknesses, primarily in the CS2 system, the Child Support Agency is unable to base its Receipts and Payments Account figures on the accountancy data held in the two systems. Instead, the Child Support Agency has maintained supplementary records, outside the main accounting systems, which provide the necessary information for preparation of the accounts.

24. The computer system weaknesses have required the Child Support Agency to develop a suite of workarounds. These workarounds necessitate significant adjustments to the ledgers in order to align them with the cash details. In cases where IT problems have had the greatest impact, an increasing number of cases, although still a small proportion of all cases, are now being managed clerically. The database is therefore not a complete record of case activity.

25. The work to address these problems is continuing, and considerable progress has been made, particularly in the past year, but the Child Support Agency still faces a major challenge in addressing the backlog of adjustments and implementing solutions which will prevent a recurrence in the future. The Child Support Agency expects that a major upgrade to the CS2 system, due for release in the spring of 2008, will resolve the most significant weaknesses.

26. As regards the debt figures, although the CSCS and CS2 ledgers hold the majority of data on debt balances, this information is not held in a form which provides the Child Support Agency with important information on the age of individual debts. As a result, the Child Support Agency has again had to develop an additional set of data to improve the quality of information available to support its debt collection role.

27. Despite these efforts, given the scale and nature of the debt and the quality of information available, the Child Support Agency faces a huge challenge in seeking to confirm whether the balances on individual cases are accurate and to target collection efforts in the most effective way.

28. The existence of supplementary financial and management information systems has been essential to allow the Child Support Agency to manage its case load and prepare the required financial statements. However, the potential for error in the formal ledgers remains and the amount of work required to maintain the various systems is onerous.

Conclusion

29. Due to the estimated level of error in maintenance assessments, I have qualified the regularity assertion within my opinion on receipts and payments and have also qualified my opinion on the debt balances reported in Note 6 to the Accounts, primarily because of errors in maintenance assessments in previous years.

30. The Operational Improvement Plan aims to address many of the historic problems that still beset the Child Support Agency and there are signs of improved performance. Although it is too early to assess whether this programme will resolve the deep-seated challenges which have led me to qualify my opinion on this account, I welcome the initiatives taken by the Child Support Agency and my staff will continue to monitor progress.



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29 November 2007

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You can find more information about our services at www.csa.gov.uk

Helpline

For information and advice about child maintenance, call our national helpline on **08457 133 133** or textphone **08457 138 924**.

Both lines are open 8am to 8pm Monday to Friday and 9am to 5pm on Saturdays. Calls are charged at local rate.

If you want to speak to us in Welsh, you can ring our Welsh language helpline on **08457 138 091**. The line is open 9am to 5pm Monday to Friday. Calls are charged at local rate.

We may record our phone calls to check our service and to train our employees.

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You can get copies of our information leaflets by downloading them from our website at www.csa.gov.uk/new/leaflets/

Or you can get them by calling our national helpline on **08457 133 133** or textphone **08457 138 924**.

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This Annual Report and Account 2006/07 and our information leaflets are available in other languages (including Welsh), in large print, in Braille and on audio cassette. You can get these formats by phoning us on **08457 133 133** or textphone **08457 138 924**.

The Annual Report and Accounts 2006/07 is available at www.csa.gov.uk

How to contact us or find out more, visit our website at:
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The **National Helpline** is open Monday to Friday between 8.00 am and 8.00 pm and Saturday between 9.00 am and 5.00 pm:
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