



Department
for Work &
Pensions

Client Funds Account 2015/16

1993 and 2003 Child Maintenance
Schemes

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

Ordered by the House of Commons to be printed 16 December 2016

HC 855



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2 Client Funds Account 2015/16 1993 and 2003 Child Maintenance Schemes

Foreword

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

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

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

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

The strategic solution to address these historic failings was the introduction of the 2012 scheme, underpinned by a completely new IT system. Since 25 November 2013, all new applications for child maintenance have gone to the 2012 Scheme. Alongside this we continue the process of closing all existing cases held on the 1993 and 2003 systems, with parents being supported and encouraged to make their own family-based arrangements. Where this is not possible they will need to make a new application to the 2012 scheme through a mandatory 'gateway' conversation with Child Maintenance Options.

Arrears arising from cases on the 1993 and 2003 schemes, which have been transferred to the 2012 computer system, are still particular to the 1993 and 2003 schemes and are reported in this publication. The Department remains committed to pursuing payments, and ensuring that parents meet their financial responsibilities for their children.

Robert Devereux
Principal Accounting Officer

Date: 6 December 2016

Management commentary

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1.1 Major reforms

The Department continues to make great progress in delivering the Government's major reforms to child maintenance following the launch of the new Child Maintenance Service in 2012, the details of which are in the 2012 scheme Client Funds Account.

Through the provision of more support for separated families to work together and reach family-based arrangements, and an efficient statutory child maintenance service with effective enforcement, for those that need it, the Department is determined to maximise the number of effective maintenance arrangements for children who live apart from one or both of their parents.

The Child Maintenance Options service continues to help separated parents make informed choices about their child maintenance arrangements, with around 193,000 children benefitting from an effective maintenance arrangement as at March 2016 following contact with Child Maintenance Options. The Sorting Out Separation web application is designed to help parents identify their needs and signpost them to trusted information, tools and services, with more than 300 signposts to over 50 different organisations.

Where parents are unable, or it is not appropriate, to come to their own family based arrangement, the 2012 scheme offers one simple assessment based on gross income and benefits in payment. Full details of the 2012 scheme can be found in the 2012 Scheme Client Funds Account.

The other key element to the child maintenance reforms is the closure of existing Child Support Agency 1993 and 2003 scheme cases, which we expect to affect around 800,000 cases with an existing liability. Debt balances on 1993 and 2003 scheme cases will automatically transfer to the 2012 computer system to allow the 1993 and 2003 scheme IT systems to be decommissioned. All existing 1993 and 2003 clients will be given the opportunity to re-apply to the 2012 scheme or to make a family based arrangement. We continue to make good progress on the closure of CSA cases. By March 2016 540,000 cases were selected for case closure, of which 396,000 cases had reached the stage where the on-going liability under the 1993 or 2003 scheme has ceased.

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

1.2 Performance during 2015/16 – 1993 and 2003 schemes

The live 1993 and 2003 scheme caseload was at 1,220,500 by the end of March 2016 (1,332,800 at 31 March 2015). The number of 1993 and 2003 scheme cases with a current liability (i.e. excluding those cases with arrears only) reduced to 411,700 (634,900 at 31 March 2015), whilst the percentage of cases contributing to their current liability increased to a high of 92.1 per cent by the end of March 2016 (87.9 per cent at 31 March 2015).

The number of children benefiting from maintenance through the 1993 and 2003 schemes in the quarter to 31 March 2016 was 517,400, a reduction of 244,700 since 31 March 2015, which can be largely attributed to all new maintenance applications now being processed on the 2012 scheme and the continuation of the programme to close all cases on the 1993 and 2003 systems. The amount of maintenance collected or arranged over the year through the 1993 and 2003 schemes was £999.5 million, of which £106.7 million was arrears (down from £1,177.2 million collected and arranged, of which £135.3 million was arrears in the 12 months to 31 March 2015).

1.3 Receipts of Child Maintenance

During 2015/16, 3.7 million individual receipts were recorded, a 16 per cent decrease in volume (2014/15: 4.4m). Total monies received were 17 per cent lower at £638 million (2014/15: £766 million). Of these, 96 per cent of receipts by volume (2014/15: 95 per cent) and 94 per cent by value (2014/15: 93 per cent) were received electronically, excluding receipts received in 1993 and 2003 systems for cases which have now transferred to CMS 2012.

By value, 67 per cent of receipts from non-resident parents were paid using the following methods via the collection service: direct debit, deduction from earnings orders via employers and payment by debit or credit card. This has increased slightly by 1 per cent from 2014/15 by value and has increased by 1 per cent by volume. Within the collection service, direct debit and deduction from earnings orders result in the highest levels of compliance. Collection by debit or credit card is particularly effective for one-off payment of arrears.

A further 22 per cent of receipts were executed under the Faster Payments system (2014/15: 22 per cent), introduced by the major UK clearing banks. Faster Payments has significantly reduced the timescales for receipts from non-resident parents and has the additional benefit of ensuring cleared funds are received promptly. Receipt failure rates remain low overall, except for direct debits, where 2 per cent of receipts fail (2014/15: 3 per cent). More than 99 per cent of these failures are initiated by non-resident parents, the most common reasons being the cancellation of a direct debit instruction or insufficient funds in the paying account.

1.4 Payments of Child Maintenance in the Statutory Schemes

During 2015/16 the number of individual payments to parents with care decreased by 18 per cent to 6.8 million, representing a decrease in volume of 1.5 million transactions, whilst the total value of payments also reduced by 17 per cent, consistent with overall receipts. 100 per cent of payments to clients by value and volume are made by funds transferred electronically directly to clients' bank accounts.

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

In 2015/16, more funds were paid out than were received due to prior year receipts paying out in this financial year. Total net payments to the Secretary of State fell by £3.6 million, or 22 per cent. Around £0.9 million per month relating to arrears continues to be paid to the Secretary of State. Only amounts relating to arrears are payable to the Secretary of State as the legislation linking maintenance to the

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benefit system was repealed in 2008. However, payments continue to be due to the Secretary of State as and when funds are received relating to on benefit periods prior to the repeal.

Maintenance monies received are paid to parents with care as quickly as possible, and cash held at 31 March 2016 equated to around 3 per cent (2014/15 2 per cent) of the funds received during the year. The Department's systems and policies do not support the use of Faster Payments as an outgoing payment on a routine basis.

There are a very small number of receipts which historically have been difficult to match to individual clients and cases, and consequently have not been paid to the relevant parent with care. Once all avenues to correctly assign a receipt to a non-resident parent have been exhausted, surpluses are transferred to HM Treasury. Despite the inherent challenge of translating 3.7 million receipts into 6.8 million payments – including many instances of sub-dividing or aggregating payments between or across multiple cases – the vast majority of payments are made accurately and in a timely manner, whether processed automatically or manually. During 2015/16 £0.04m in receipts were paid to HMT (2014/15: £0.08m).

1.5 Outstanding arrears of child maintenance

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

Outstanding child maintenance arrears totalled £3,976 million at 31 March 2016 (an increase of £19 million on 1993 and 2003 scheme arrears at 31 March 2015 of £3,957 million), and were owed by non-resident parents to their respective parent with care and to the Secretary of State. The Department is responsible for pursuing their collection. The £3,976 million arrears owing have accumulated over the last 23 years.

1.6 Collectability

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

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

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

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

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

- The existence of a maintenance arrears schedule at any point during the six months prior to the reporting date, even though no payments were received in the period. Arrears schedules are established following contact with the non-resident parent, who makes a commitment to clear the arrears over a specified period. Non-resident parents do not always adhere to the schedule, but the fact that contact had been made with the individual and a commitment had been made is considered to indicate that the arrears are potentially collectable.

- For recent arrears, i.e. aged three months or less, the receipt of at least one payment against those arrears after the reporting date. Recent arrears arise on new cases, where the set-up process can mean that no receipts can be accepted immediately, or on older cases where an existing maintenance arrangement has recently broken down. Schedules are seldom put in place until arrears have been accumulating for more than six months; enforcement resources are concentrated on re-establishing broken down arrangements quickly. Consequently, receipts after the balance sheet date for young arrears are considered to provide reasonable evidence that the arrears will be cleared.
- The anticipated impact of some of the enforcement powers on the arrears, were the powers to be used more widely. The two powers considered were the deduction order, which enables the Department to seize funds from non-resident parents' bank accounts, and the use of orders for sale of non-resident parents' property.

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

Analysis of Collectability 2015/16

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

Analysis of Collectability 2014/15

£'000	2003 System	1993 System	Clerical Case Database	Total
Likely to be collected	308,050	109,259	49,596	466,905
Potentially Collectable	399,687	98,135	64,281	562,103
Uncollectable	1,540,880	1,136,717	250,221	2,927,818
Total	2,248,617	1,344,111	364,098	3,956,826

Arrears have increased by £19m which represents a 0.5% overall increase. This has mainly been driven by more NRPs defaulting on maintenance arrangements. The increase in the proportion of CSA arrears classed as uncollectable reflects the increased ageing of arrears. This is an effect of the published arrears strategy which continues to prioritise the collection of CSA maintenance for cases with those children who will benefit today, over the collection of older arrears.

Robert Devereux
Principal Accounting Officer

Date: 6 December 2016

Statement of Accounting Officer's responsibilities

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

Under Section 7(1) and (2) of the Government Resources and Accounts Act 2000, HM Treasury has directed the Department for Work and Pensions to prepare, for each financial year, a Client Funds Account for the current 1993 and 2003 statutory schemes in the form and on the basis set out in the Client Funds Account Direction.

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

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

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

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

Robert Devereux
Principal Accounting Officer

Date: 6 December 2016

Governance Statement

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1 Introduction

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

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

- 1.2** The governance arrangements set out in the Departmental Resource Account for year ended 31 March 2016 relate to the Child Maintenance Group as part of the Department.
- 1.3** This statement covers topics which are specific to the Child Maintenance Group operating within the Department with particular emphasis on the significant control challenges identified in relation to child maintenance.
- 1.4** The control weaknesses of the systems underpinning the 1993 and 2003 statutory schemes are a result of the limitations of the systems, which have led to successive qualifications by the Comptroller and Auditor General. This statement records the action which the Department has taken to manage these control weaknesses.

2 Significant Control Challenges

2.1 Cases managed off the 1993 and 2003 systems

- 2.1.1** The Department operated two main child maintenance computer systems under the Child Support Agency umbrella during 2015/16. These were 1993 (previously known as CSCS) and 2003 (previously known as CS2). Data issues, software defects or both mean that some cases either cannot be managed at all on the 2003 system, or can only partially be managed on that system.
- 2.1.2** As at 31 March 2016, there were 87,700 cases managed wholly off the 2003 system, which has decreased from 103,200 as at 31 March 2015.

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

2.1.4 As with the main 1993 and 2003 computer systems, limitations within the small IT systems have, in some instances, led to inaccurate arrears balances recorded on those systems. Update and cleanse activities which form part of the case closure process aim to address this issue. See page 11 paragraph 2.7.1 for more details on the case closure process.

2.2 Incorrect maintenance assessments

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

2.2.2 Cash Value Accuracy in 2015/16 has reduced slightly against previous years to 96%, from 97% in 2014/15. Cash Value Accuracy remains an area of focus particularly during the challenging conditions brought about by the movement of work relating to the closure of cases on the 1993 and 2003 schemes, while maintaining the growing 2012 Scheme caseload

2.3 Adjustments to assessments and arrears

2.3.1 The accuracy of adjustments made to arrears has been a weakness for many years however; as a result of continuing management focus and caseworker education programmes there has been a stepped increase in adjustment accuracy from 90.5% in 2014/15 to 96.9% in 2015/16. The use of public money to correct the historic inaccuracies could not be justified given the limited life of these systems.

2.4 System and transaction controls

2.4.1 During 2015/16, the Department continued to utilise and improve the 1993 and 2003 child maintenance systems to ensure efficient processing of receipts and payments.

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

2.4.3 A number of significant improvements have been made to the Client Funds Account Team bank reconciliation function to replace a number of manual processes with functionality to create rolled-up entries, which are fully audited. This has allowed the team to focus on value added activities and enabled achievement of the lowest number of outstanding bank reconciliation items at 686 since the inception of 2003 system, which has historically been as high as 42,000.

2.4.4 As in prior years, the 1993 and 2003 scheme element of Note 6 has been prepared using a suite of reports developed as a result of weaknesses in the information on outstanding levels of maintenance arrears (Client Funds Account 2008/09 covers this in detail). Moving cases to the 2012 IT system is the main way in which CMG intends to address this challenge; this process is covered in more detail in paragraph 2.7.1 below.

2.5 Reimbursements to clients

- 2.5.1** The Department continued to make reimbursements to clients due to short-term timing differences in updating client change of circumstances across all schemes. These reimbursements are treated as a loss and recorded as such in the Department's Resource Annual Report and Accounts.
- 2.5.2** Robust authorisation and controls introduced in 2011/12 continued and the value of these payments fell by 7 per cent to £7.0 million in 2015/16.

2.6 Information Security

- 2.6.1** The control challenge remains to protect the vast amount of sensitive personal data necessary to assess and pay child maintenance while at the same time making efficient use of that data. The Department's information security risk appetite remains low. However, the system introduced to manage the 1993 scheme, CSCS, is not security accredited and given its expected limited life there are no plans to pursue accreditation.

2.7 Case Closure Programme

- 2.7.1** The Case Closure Programme began in 2014 including processes to contact all 1993 and 2003 system clients to consider if they would like their arrears managed on 2012 system or written off. The intention being that all cases will be closed over the next three years or so, and the 1993 and 2003 computer systems decommissioned.

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

- 2.7.2** During the reporting year to 31 March 2016 £130.5 million had transferred to the 2012 system (2014/15: £26.5 million) with only £0.127 million relating to 348 cases (2014/15: £0.014m relating to 5 cases) not held on a system at year end due to timing delays in building the cases on the 2012 system. Improvements will continue to be made to this process; for example a small system is currently under development to support reconciliation of the increased volumes of cases closing.

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

I have audited the Client Funds 1993 and 2003 scheme Account for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Receipts and Payments Statement, the Statement of Balances and the related notes. This account has been prepared in the form directed by Her Majesty's (HM) Treasury. These financial statements have been prepared under the accounting policies set out within them, namely:

- Note 6, detailing outstanding maintenance arrears, which has been prepared on an accruals basis; and
- All other sections of the financial statements, which are prepared on a cash basis.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer of the Department for Work and Pensions (DWP) is responsible for the preparation of the Client Funds 1993 and 2003 scheme Account in accordance with the HM Treasury Direction.

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

- On note 6, 'Outstanding Maintenance Arrears', I provide an opinion as to whether the note gives a true and fair view of the outstanding maintenance arrears;
- On all sections other than Note 6 'Outstanding Maintenance Arrears', I provide an opinion as to whether the account properly presents the receipts and payments of the Client Funds 1993 and 2003 scheme Account and the cash balances held and that the account has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions thereunder; and
- For all sections of the financial statements, I provide an opinion as to whether in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the account sufficient to give reasonable assurance that the account is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Client Funds 1993 and 2003 scheme Account and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the DWP in respect of the account; and the overall presentation of the account.

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

Opinions

Note 6: 'Outstanding Maintenance Arrears'

Adverse opinion on Note 6 'Outstanding Maintenance Arrears'

In my opinion, Note 6 to the account does not give a true and fair view of the outstanding maintenance arrears as at 31 March 2016.

Basis for adverse opinion on Note 6 'Outstanding Maintenance Arrears' as a result of errors in underlying data

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

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

The Department is unable to estimate the value of the misstatements as a result of inaccurate maintenance assessments, but our audit work indicates that the cumulative impact on the value of arrears as at 31 March 2016 is significant.

The best estimates available to me of the impact of incorrect processing of cases with arrears indicate that they have led to overstatements of at least £47.7 million and understatements of £154.0 million within the reported balance of £3.98 billion in Note 6 to the account.

All sections other than Note 6, 'Outstanding Maintenance Arrears'

Unqualified opinion on the Receipts and Payments Statement

In my opinion:

- The account properly presents the receipts and payments of the Client Funds 1993 and 2003 scheme Account for the year ended 31 March 2016 and the cash balances held as at 31 March 2016; and
- The account has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions thereunder.

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

Qualified opinion on regularity

In my opinion, except for the over and underpayments relating to errors in maintenance assessments, in all material respects the receipts and payments recorded in the accounts have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

Certain receipts from non-resident parents (and the subsequent payments to the parent with care or Secretary of State) were for incorrect amounts because of errors in the underlying maintenance assessments. Receipts from non-resident parents of £638.5 million are shown in the Client Funds 1993 and 2003 scheme Account. I estimate that errors in underlying maintenance assessments resulted in overpayments of around £3.3 million and underpayments of around £4.5 million which are not in accordance with the relevant legislation.

Matters on which I report by exception

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

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

Further details of my modified opinions are provided in my report on pages 15 to 19.

Sir Amyas C E Morse

Date: 8 December 2016

Comptroller and Auditor General

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

5

Introduction

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

The Department is leading the schemes through a period of major reform, where the intention is that, eventually, all child maintenance cases in Great Britain are processed under the 2012 scheme. At present the Department is running the older 1993 and 2003 schemes concurrently with the new 2012 scheme while it continues to transfer cases from one to the other.

This report relates specifically to the Client Funds Account reporting on cases administered under the 1993 and 2003 schemes. I have produced a separate report on the Client Funds Account that reports cases administered under the 2012 scheme (HC856).

The modifications to my audit opinions on the 1993 and 2003 schemes account are longstanding and reflect significant and ongoing problems in the accurate calculation of maintenance and with the underlying IT systems since the 1993 and 2003 statutory child maintenance schemes were first introduced. I have reported on these issues previously.

Qualified Opinion due to Irregular Receipts and Payments

As the independent external auditor, I am required to give an opinion on whether, in all material respects, the Client Funds 1993 and 2003 Scheme Account (the Account) properly presents the receipts and payments for the year ended 31 March 2016 and whether these transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them (the 'regularity' opinion).

The Department is required to adhere to specific legislative requirements when determining maintenance assessments and has no authority to exercise latitude. When an assessment is made that is not in accordance with these legislative requirements, the receipt and associated payment are incorrect and are irregular. While the Account properly presents the amounts of child maintenance received and paid in year, I have qualified my regularity opinion on the grounds of material errors in the calculations of maintenance assessments underpinning receipts and payments; these assessments are not in accordance with the legislation and therefore associated receipts and payments are not in line with the purposes intended by Parliament.

In 2015–16, the Department received £638.5 million in respect of child maintenance from non-resident parents assessed under the 1993 and 2003 schemes. I have estimated that errors in assessments result in overpayments of child maintenance amounting to £3.3m (£4.2m in 2014–15) and underpayments totalling £4.5m (£6.5m in 2014–15). The cases affected by overpayments are unconnected to the cases affected by underpayments, and consequently I have had to consider the gross error figures. I have therefore qualified my regularity audit opinion on the basis of the gross value of irregular receipts and payments (£7.8m for 2015–16, representing 1.22% of total receipts and £10.7m for 2014–15, representing 1.4% of total receipts).

My estimate for the level of over and underpayments remains unadjusted within the reported receipts and payments figures in the Account. An adjustment cannot be made to the figures because the value of over and underpayments is an accumulation of a significant number of individual incorrect maintenance assessments.

Incorrect maintenance assessments

The original 1993 legislation required up to 148 different pieces of information to calculate a maintenance assessment. An error in any element of the assessment will impact the accuracy and so regularity of the child maintenance received from the non-resident parent. Ordinarily there are multiple assessments throughout the lifetime of a case to reflect changes in circumstance. Where such reassessments occur, the likelihood of error increases as the level of manual case worker intervention increases.

The Department’s Quality Assurance Team (QAT) carries out extensive checking of maintenance assessments each year. These checks cover cases where there has been a recalculation owing to a change in circumstance only, given that all new cases are being assessed under the 2012 scheme. As part of my audit I have reviewed the findings of the QAT and have estimated a gross error rate of 1.2% in maintenance assessments under the 1993 and 2003 schemes underpinning receipts and payments recorded in 2015–16.

Unlike the 2012 scheme cases, the 1993 and 2003 child maintenance scheme cases are not subject to an annual review. As a result, there are receipts and payments that flow through the 2015–16 account that are based upon maintenance assessments that were calculated in previous years. To take account of this fact, I do not consider the accuracy of calculations processed in 2015–16 in isolation, but also apply historic rates to a proportion of the total receipts and payments when forming my estimate of accuracy in receipts and payments. Therefore, while the Department’s QAT has identified an in-year fall in accuracy (from a 97% cash value accuracy in 2014–15 to 95.7% cash value accuracy in 2015–16), because of the higher accuracy rates achieved in previous years, I have estimated a small improvement in the overall accuracy of receipts and payments in the 2015–16 account. The table below shows my estimate of error in receipts and payments for the 2015–16 financial year and how this compares to the previous three years.

Table 2: Accuracy of maintenance assessments – legacy systems

	2012–13	2013–14	2014–15	2015–16
NAO estimated cumulative irregular receipts and payments accuracy (gross)	1.7%	1.7%	1.4%	1.2%

Outstanding Maintenance Arrears

Adverse opinion on Note 6 ‘Outstanding Maintenance Arrears’

Where a non-resident parent does not make payments in accordance with their child maintenance assessment, the Department records any shortfall in the ‘outstanding maintenance arrears’ balance and reports it in Note 6 of the Client Funds Account. The balance of £3.975 billion as at 31 March 2016 is the cumulative total of outstanding arrears since the Child Support Agency was established in 1993. This balance represents the total amount owed by non-resident parents to either the parent with care or, in some instances, the Secretary of State. Current legislation allows the Department to write off arrears only in very limited circumstances.

I am required to give an opinion on whether the outstanding maintenance arrears balance as at 31 March 2016 is true and fair. In my opinion there is material error in the value of arrears recorded in Note 6 to the account and as a result I have concluded that Note 6 does not give a true and fair view of the maintenance arrears outstanding at 31 March 2016. The misstatement is primarily a result of:

- a) Incorrect maintenance assessments (as outlined above);
- b) Incorrect adjustments to arrears; and
- c) Issues relating to clerical cases.

a) Incorrect maintenance assessments

Where the Department has made incorrect maintenance assessments, for the reasons set out in more detail above, any arrears accruing will be doing so at an incorrect rate and consequently the value of the accrued outstanding maintenance arrears will be misstated. The Department is unable to estimate the value of this misstatement, but audit work indicates that the cumulative impact of incorrect maintenance assessments on the value of arrears as at 31 March 2016 is material.

b) Incorrect adjustments to arrears

Caseworkers administering child maintenance cases are able to adjust the value of arrears on individual cases. This is to allow the Department to take retrospective action when circumstances change that alter the value of maintenance charged. Errors can arise in the calculation of the required adjustment, which then result in a misstatement in the value of arrears.

Note 6 to the Account reports the arrears balance net of any caseworkers’ adjustments, which means that any errors made in these adjustments affect the arrears balance reported. I estimate that arrears are overstated by around £15.9 million (£15.9m in 2014–15) and understated by around £115.8 million (£113.7m in 2014–15) as a result of such errors.

As with the level of irregular receipts and payments, the Department has chosen not to make a revision to the arrears note in order to correct for these errors, because they are an estimated aggregation of the accumulated over and under-adjustments made to individual cases since the inception of the statutory schemes.

The Department’s QAT measures the accuracy of adjustments to arrears and undertakes a ‘root cause’ analysis of both maintenance assessments and arrears adjustments to allow focussed training and improvements to processing procedures.

In forming my opinion on the arrears balance I have carried out sufficient work to enable me to conclude that a material level of error exists in the arrears balance. This has not included an exercise to estimate the accuracy rate of all adjustments made to the arrears balance. The Department does, however, estimate the level of accuracy in all arrears adjustments and these estimates are shown in Table 3 below.

Table 3: The Department's estimates of the accuracy of adjustments to arrears 2012–13 to 2015–16

	2012–13	2013–14	2014–15	2015–16
Percentage of cases with accurate adjustments to arrears	86%	94%	90%	97%

The Department has no plans to correct cases where errors have occurred previously. As the errors that have accumulated over the years remain uncorrected in the arrears balance, we consider a material level of error remains.

c) The clerical case database

The two issues described above are the primary causes of the high value of errors in the arrears balance. Further errors arise from weaknesses in the management of clerical cases, but it is not possible to accurately estimate the financial impact.

Where system failures prevent on-line case management, the Department has to manage the affected cases manually on a separate clerical case database. This database was originally set up to manage around 10,000 cases, but there are currently over 87,000 cases managed in this way. There are two specific problems with the clerical case database, which are set out below. The Department has continued to take corrective action on the clerical case database balances in readiness for the transition of these cases to the 2012 Scheme.

Incorrect charging status of cases

The clerical case database requires the manual input of customer maintenance schedules. A maintenance schedule which is not correctly maintained can result in cases incorrectly reporting that no maintenance is due, which will understate the arrears balance at the year end. There is no adequate information available from which either the Department or I can provide a reliable estimate of error, but the available evidence indicates that arrears are understated as a result.

Opening balances on the clerical case database

Of the cases that the Department has transferred onto the clerical case database, there are a number which it transferred without arrears balances. The Department had adjusted for this in the account by increasing the arrears balance by the value of the arrears reported on the online systems for the affected cases before they transferred. The Department's two key assumptions underlying this adjustment are that the majority of nil opening balances on the Clerical Case Database are errors and that the closing balance on the 2003 system is the correct opening balance for cases now managed on the clerical case database. However, my testing has confirmed that this is not the case in all instances. While it is clear that the arrears balance is overstated, there is not, however, sufficient information available to make a reliable estimate for the value of this error.

As part of my audit of the 1993 and 2003 scheme account I have considered the two issues above and have been able to confirm that they remain a source of error within the account. Given the limitations in calculating estimates of the errors and the material errors due to incorrect maintenance assessments and adjustments to arrears, I have not sought to carry out further testing in order to quantify the error resulting from issues with the clerical case database.

Next steps for the 1993 and 2003 schemes

Case Closure and its impact on receipts and payments and the arrears balance

The Department's focus continues to be on the closing of cases on the 1993 and 2003 schemes and providing customers with an option to either create a family based arrangement or apply under the 2012 scheme rules. The live 1993 and 2003 scheme caseload was at 1,220,500 by the end of March 2016, a reduction of 8% from 1,332,800 at March 2015. As at June 2016 586,300 cases had closed on the 1993 and 2003 schemes. The Department believes that it remains on course to have all cases, that have an ongoing liability, closed by 31 March 2018.

Once all cases assessed under the 1993 and 2003 schemes have been closed, the value of receipts and payments made in the 1993 and 2003 Account will decrease significantly as the only receipts and payments recognised will be those that satisfy arrears built up while the cases were assessed under the 1993 and 2003 rules. The Department anticipates that, as the volumes of cases transitioning increases, the 1993 and 2003 arrears balance, which will continue to be reported in this Account, will fall in value but not in its entirety as not all parents will agree to previous arrears being written off.

As parents transition onto the 2012 scheme or opt to move onto a family-based arrangement, where arrears have built up under the 1993 or 2003 schemes they are asked whether they wish for the arrears to be written off. During 2015–16, £30.1 million arrears were written off of which £11.9 million (40%) resulted from parents with care opting to write off arrears as part of the 2012 scheme transition process.

The likely position, following full case closure, is that this account will continue to disclose a large arrears balance, a balance that I consider to be materially misstated. The Department have informed me that cleansing this arrears balance would require a significant level of manual intervention, due to the historic and deeply embedded error, and that they are not willing to dedicate resource to this task. This cleansing activity becomes even less likely as a significant number of staff move from working 1993 and 2003 scheme cases to working on Universal Credit. The issues that lead to me qualifying the 1993 and 2003 Account are therefore not expected to be sufficiently addressed in the natural course of this ongoing transition.

Arrears accumulated under the 1993 and 2003 scheme represent money that is owed to parents with care from non-resident parents that has not been successfully collected and subsequently paid. Cases continue to be assessed under the 1993 and 2003 schemes while the case closure process continues and as such inaccuracies in maintenance assessment calculations under these schemes continue to effect both non-resident parents and parents with care. It is my view, therefore, that the inaccuracies, both historic and current, in the arrears balance and the ongoing maintenance assessments need to be addressed by the Department in order to prevent further significant negative impacts on the people who have used this service.

I am investigating concerns of parents and Parliament relating to case closure and will report in Spring 2017.

Sir Amyas C E Morse

Date: 8 December 2016

Comptroller and Auditor General

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London
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Receipts and Payments Statement for the year ended 31 March 2016

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	Notes	2015–16 £000's	2014–15 £000's
Receipts	2	638,472	765,608
Bank Interest	3	-	-
Total Receipts		638,472	765,608
Less payments to:			
Persons with Care	2	621,126	743,574
Secretary of State	2	12,895	16,529
Non-resident Parents/employers	2	6,041	7,075
Department in respect of fees	2	96	223
Total Payments		640,158	767,401
Net receipts/(payments)		(1,686)	(1,793)
Balance as at 1 April 2015/1 April 2014		22,111	23,904
Balance as at 31 March 2016/31 March 2015		20,425	22,111

Statement of Balances as at 31 March 2016

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	2015–16 £000's	2014–15 £000's
Funds awaiting clearance	6,273	7,228
Cleared funds awaiting distribution	14,152	14,883
Balance on bank account	20,425	22,111

Notes to the account for the year ended 31 March 2016

8

1 Statement of accounting policies

The account has been prepared on a cash basis and in the form directed by Her Majesty's Treasury (HM Treasury). The outstanding maintenance arrears note records amounts owed by non-resident parents as at 31 March 2016, along with movements in these arrears balances during the financial year.

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

The account has been prepared under the historical cost convention.

2 Receipts and payments

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

The receipts quoted in the Receipts and Payments Statement differ from the receipts total shown in movements on outstanding maintenance arrears (see Notes 6.0 and 6.1). This is due principally to timing differences and the inclusion of non-maintenance receipts in the amounts shown in the Receipts and Payments Statement.

Monies are also received from the Secretary of State to refund non-resident parents in cases where an overpayment has been made and the amount is irrecoverable. This totalled £7.0 million (2014/15, £7.5 million) and is disclosed as a loss in the Department's Annual Report and Accounts 2015/16.

Included in the £616 million (2014/15, £744 million) paid to the parent with care is £1.7 million (2014/15, £1.8 million) paid to the Northern Ireland Child Maintenance and Enforcement Division to fund payments made on the Department's behalf.

The payments to the Secretary of State of £12.9 million have been made in respect of funds received on cases where clients were in receipt of benefit at the time of the assessment, pre-October 2008. The repeal of Section 6 in October 2008 resulted in all cases being re-classified as private cases with no involvement with the benefit system. However, when funds are received which relate to periods when clients were in receipt of benefits these payments continue to be made to the Secretary of State.

Other payment categories relate to refunds/reimbursements to non-resident parents and employers for overpayments of maintenance, totalling £6.0 million in 2015/16 (2014/15, £7.0 million). Also, payments were made to the Department in respect of fees for DNA tests and court costs, £0.09 million in 2015/16 (2014/15, £0.22 million).

3 Interest received and paid

The Department receives interest on balances deposited in the Client Funds bank account, at the Bank of England base rate minus 1 per cent. Since the base rate was 0.5 per cent during the period, the effective rate was 0 per cent.

As a consequence of the low rate no interest was received in 2015/16 (2014/15, £nil) and no interest was paid to parents with care.

4 Statement of balances

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

5 Outstanding Maintenance Arrears

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

6 Arrears Balances

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

However, it also acknowledged that we must deal with a legacy of allowing arrears to build up, with money owed by parents expected to pay child maintenance accruing in the Child Support Agency at an average rate of £20 million per month between 1993 and 2008. The operational priority of the statutory service is to collect money for children who will benefit from regular on-going maintenance payments today, rather than prioritising the pursuit of historic arrears in cases where the children have now grown up.

An Arrears Strategy working group has been established in CMG to test and implement a number of initiatives outlined in the Arrears and Compliance Strategy. The aim of the strategy is to achieve a reduction in the arrears balance by either recovering it from the non-resident parent and / or write off of an element of arrears using existing and new write off powers.

Initiatives being piloted include pro-active calls to parents with care to discuss the options in collecting any arrears and the extension of part payment powers as full and final satisfaction of an arrears balance owed to Secretary of State.

The success of these and other pilots will inform whether CMG roll these activities out for the whole 1993 and 2003 scheme case load as part of the Case Closure Programme.

6.0 Outstanding maintenance arrears at 31 March 2016

	Notes	CS2 £000s	CSCS £000s	Clerical Case Database £000s	Total £000s
Outstanding maintenance arrears as at March 2015	a	2,248,617	1,344,109	364,099	3,956,826
Write off	6.1ii	(24,315)	(4,718)	(2,004)	(31,037)
Maintenance charged in year	6.1i	593,844	30,288	44,549	668,681
Maintenance received in the year	6.1iii	(512,033)	(47,141)	(59,573)	(618,747)
Outstanding maintenance arrears at 31 March 2016	6.1iv	2,306,112	1,322,539	347,072	3,975,723

Note a

1993 scheme cases are managed on both the CSCS and CS2 systems. 2003 scheme cases and cases that have migrated from the 1993 scheme are managed on 2003 and on the clerical case database. The format of this note continues to report by system rather than scheme basis. 1993 and 2003 scheme cases hosted on 2012 system are reported in the notes according to the system they transferred from.

Transfer of arrears from 1993 and 2003 systems of £153.2 million are now hosted on 2012 system and are included in the table above. The table reflects a consolidation of 1993 and 2003 scheme arrears irrespective of the system upon which they are recorded.

6.1 Movements in outstanding maintenance arrears

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

- i) Maintenance charged during the year and other adjustments. This comprises: assessments made on non-resident parents during the year; outstanding maintenance arrears transferred to and from the Northern Ireland Child Maintenance and Enforcement Division, and adjustments arising from cancelled or terminated assessments; or where the liability has been reduced, for example, as a result of a direct payment between parties offset against the maintenance due. The amount charged in 2015/16 was £669 million (2014/15, £751 million); the decrease is in line with the Case Closure Programme, to close cases on the 1993 and/ 2003 systems and if appropriate transfer them to 2012 system.
- ii) Child Maintenance Group has continued to make use of write off powers introduced as part of Write off and Part Payment legislation introduced in 2010, with £31 million being written off on 1993 and 2003 scheme cases (2014/15, £31 million).
- iii) Maintenance received during the year. This comprises amounts received from non-resident parents and the Northern Ireland Child Maintenance and Enforcement Division during the year. When a receipt is subsequently allocated to a case by the child support computer systems, the receipt becomes a constituent of the arrears balance for that case. The timing difference between receipt, assignment and allocation contributes to the difference between the value of the receipts in the Receipts and Payments Statement and the receipts in Note 6. The total value of receipts allocated to cases in 2015/16 was £619 million (2014/15, £749 million).

- iv) Outstanding maintenance arrears as at 31 March 2016. This is the balance of outstanding maintenance arrears recognised by the Department, after allowing for maintenance assessments in the year and after receipts of maintenance have been deducted.

7 Events after the reporting date

The authorised date for issue is 8 December 2016.

This publication can be accessed online at:

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

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Copies of this publication can be made available in alternative formats if required.

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