

Child Support Agency Client Funds Account 2002-2003

Executive Summary

Introduction

1. The Child Support Agency (the Agency) was established as an Executive Agency of the Department of Social Security (now Department for Work and Pensions) in 1993. It is responsible for implementing the 1991 and 1995 Child Support Acts and elements of the Child Support, Pensions and Social Security Act 2000 by ensuring that non-resident parents meet maintenance responsibilities towards their children.
2. The Agency received £586 million from non-resident parents in 2002-03 and made payments of £427 million to parents with care and £149 million to the Secretary of State, where parents with care were in receipt of benefit. A further £11 million was paid mainly to non-resident parents in respect of monies incorrectly collected. At 31 March 2003 amounts outstanding from non-resident parents, and considered recoverable totalled £783 million.

Audit Examination of the Client Funds Account for the year 2002-03

3. I have qualified my audit opinion on the Agency's Client Funds Account for 2002-03 because, following my examination, I estimate that 28 per cent of receipts and 76 per cent of maintenance assessment debts were incorrect. This is mainly as a result of historic errors in underlying maintenance assessments and incorrect adjustments to customers' accounts.
4. Based upon these results, I estimate that overpayments by non-resident parents amounted to £4.5 million while underpayments amounted to £21.9 million. I also estimate that at 31 March 2003 recoverable debt relating to full maintenance assessments contained overstatements of £24.3 million and understatements of £437.4 million. Similarly debts considered recoverable relating to interim maintenance assessments contained estimated overstatements of £3.5 million and estimated understatements of £8.7 million.

Child Support Reforms

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5. Under the Child Support Reform programme the implementation of simplified rules relating to maintenance assessment, the modernisation of operational processes and the introduction of a new computer system is expected to promote more accurate and timely maintenance assessments with improved payment compliance.

6. The reforms were introduced on 3 March 2003 for new claims only, following a deferral announced by the Secretary of State for Work and Pensions of the original implementation date of April 2002. This followed a programme of pilot testing of the new systems in a live environment. As a consequence of the delayed implementation only 3,102 new claims were being processed at 31 March 2003. I will therefore be considering the impact of the reforms on the accuracy of maintenance assessments as part of my audit of the 2003-2004 account.

Part One: Introduction and Background

Introduction

- 1.1. I am required under the Government Resources and Accounts Act 2000 to examine and certify the Child Support Agency (the Agency) Client Funds Account and report the results to Parliament. This report provides:
- a summary of the significant matters arising from my examination of the 2002-03 Account and explains why I have qualified my opinion (part 2); and
 - a progress report on the implementation of Child Support Reforms (part 3);

Background

- 1.2. The Agency is an Executive Agency of the Department for Work and Pensions. It was established in 1993 and is responsible for implementing the 1991 and 1995 Child Support Acts and the changes incorporated in the Child Support, Pensions and Social Security Act 2000. Its main purpose is to ensure that non-resident parents meet their maintenance responsibilities towards their children. As part of this process the Agency:
- collects payments from non-resident parents and passes these on to the parent with care or to the Secretary of State where the parent with care is in receipt of Income Support or income based Job Seekers Allowance;
 - manages payment compliance; and
 - updates assessments when changes in circumstances are reported.
- 1.3. Up to 3 March 2003, all new applications for child support maintenance were assessed against formulae contained in regulations approved by Parliament. This was a complex process requiring Agency staff to obtain information about the personal circumstances of both the non-resident parent and the parent with care including the former's ability to pay. This involved gathering many separate pieces of information about income, housing costs

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and other expenses from customers who may have been reluctant to provide this information. Consequently there was a significant risk of error occurring.

- 1.4. From 3 March 2003 the methodology employed by the Agency to calculate maintenance assessments was substantially altered for new claims. The new methodology is significantly less complicated than the previous scheme and the Agency believe that this will result in an improved accuracy rate for maintenance assessments and provide other associated benefits. I shall monitor the full impact of the new scheme on levels of error in maintenance assessments.

Part Two: Examination of the Client Funds Account

Introduction

- 2.1. The Child Support Agency Client Funds Account records that £586 million was received by the Agency from non-resident parents during 2002-03. Based on this amount £427 million was paid over to the parent with care and £149 million was paid to the Secretary of State, where parents were in receipt of Income Support or income based Jobseeker's Allowance. Further payments totalling £11 million were made mainly to employers or non-resident parents in respect of monies incorrectly collected.
- 2.2. Historically the Agency made interim maintenance assessments where insufficient information was available to make a full maintenance assessment. This usually occurred where non-resident parents have failed to comply with the Agency's requests for information about their personal circumstances. To encourage compliance, interim assessments were set at punitive rates, taking no account of the non-resident parent's ability to pay. Consequently much of this debt relating to Interim Maintenance Assessments is unlikely to be recoverable.
- 2.3. At 31 March 2003 the amounts due and deemed recoverable from full and interim maintenance assessments were £664 million and £119 million respectively.

Audit Results

Receipts and Payments

- 2.4. The National Audit Office examined a representative sample of the £586 million receipts from non-resident parents during 2002-03. In 72 per cent of cases examined, the receipt was correct. In 28 per cent, receipts were for the wrong amount, mainly due to errors in the underlying maintenance assessments.
 - 2.5. The Agency's unit that monitors the accuracy of maintenance assessments has reported similar findings for 2002-03. They found that the accuracy of the whole of the current
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assessment which includes elements carried forward from previous assessments was 75 per cent. However, they found that 83.8 per cent of the last decisions taken on cases were accurate. This exceeds the target set by the Secretary of State for last decision accuracy in 2002-2003 of 80 per cent.

- 2.6 The sampling techniques used have allowed the National Audit Office to extrapolate the results of the testing to provide a quantified estimate of the level of monetary error in the receipts and payments account. As a result estimated overpayments by non-resident parents amounted to £4.5 million (0.8 per cent of total receipts) while underpayments amounted to £21.9 million (3.7 per cent of total receipts). On this basis the total estimated over and underpayments are a material sum and I have therefore qualified my opinion.

Maintenance Balances

- 2.7 The National Audit Office checked a representative sample of non-resident parents' maintenance arrears balances. This involved a re-performance of the assessments, charges, transactions and adjustments made through the lifetime of each case. This examination identified errors in:
- 80 per cent of full maintenance balances; and
 - 69 per cent of interim maintenance balances.
- 2.8 From these results the National Audit Office estimates that the £664 million considered recoverable at 31 March 2003 from non-resident parents for full maintenance assessments is likely to include overstatement errors amounting to an estimated £24.3 million (3.6 per cent of the total) and understatement errors amounting to an estimated £437.4 million (65.9 per cent of the total).
- 2.9 Similarly the National Audit Office estimates that the £119 million considered recoverable at 31 March 2003 from non-resident parents for interim maintenance assessments is likely to include overstatement errors amounting to £3.5 million (2.9 per cent of the total) and understatement errors of £8.7 million (7.3 per cent of the total).
- 2.10 In light of these results, I have concluded that the amounts recorded in the Account as being considered recoverable from non resident parents at 1 April 2002 and 31 March 2003 are materially misstated and therefore I have qualified my audit opinion.
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Part Three: Child Support Reforms

Introduction

- 3.1. The objectives of the Child Support Reforms are to:
- be simple, clear and easy to understand so that under the new scheme non-resident parents will know immediately how much they need to pay for their children, and how much they will have left to meet their other responsibilities;
 - put the needs of children first, making it clear that the parents' legal and moral responsibilities to their children overrides other day-to-day expenses;
 - give extra help to children on Income Support through the child maintenance premium;
 - be streamlined and customer friendly such that maintenance is assessed and collected within a few weeks of receipt of an application; and
 - offer a personal, localised service that integrates child support with other family support services.
- 3.2. The original date for the implementation of the reforms was April 2002. However this was deferred following an announcement by the Secretary of State because the Agency was not satisfied that the required technical infrastructure and IT functionality had been sufficiently tested. Following further piloting and detailed testing of the new IT system the reforms were introduced on 3 March 2003, from which date all new applications for maintenance could expect to be subjected to the new rules.
- 3.3. As at 31 March 2003 3,102 new cases were being processed under the new rules. There were a further 24,084 cases that had been migrated to the new system, primarily old scheme cases used for systems testing but with a proportion linked to new cases. At 31 March the total live case load held on the old system was 1,230,334. The Agency is therefore now dealing with three distinct types of case:
- those held on the old computer system and being processed using old rules,
 - those held on the new computer system being processed using old rules, and
 - those held on the new computer system being processed using new rules.

Continuing Challenges

3.4. Child Support Reforms represent an ambitious and complex undertaking which impacts on all aspects of the Agency's operations. The reforms encompass a range of initiatives and pose a number of challenges yet to be fully addressed by the Agency. In particular these include:

- Improved accuracy and case compliance
- Migration
- Conversion
- System Functionality.

Improved Accuracy and Case Compliance

3.5 Historically errors in maintenance assessments identified by the National Audit Office have primarily related to the calculation of housing costs and net income. Under the reforms, the former are no longer a component of the assessment formula and the latter is now calculated on a much simpler basis. These developments and a new IT system which offers on-line support provide a basis for improved accuracy rates.

3.6 In 2001-2, a new system was introduced that integrates debt management with the Agency's main operational processes. This now enables the Agency to identify a non-resident parent's failure to pay maintenance on a timely basis, and take appropriate action.

Migration

3.7 Successful migration of case information from the original computer system to the new one is

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a critical step in implementing the Child Support Reforms. This will involve:

- Reactive migration when a new application is made which includes a non-resident parent or parent with care already involved in a current case. The existing case is transferred from the old system to the new system to enable both cases to be handled on the new system;
- Bulk migration when large numbers of cases remaining on the original computer system will be moved to the new system. The Agency recognises the risks inherent in an exercise of this type and have put arrangements in place aimed at securing the accurate and complete transfer of data from one system to the other.

3.8 At 31 March 2003 31,880 cases had been identified as linked to new applications and *some* of these had been successfully migrated to the new system. Bulk migration will commence when the Agency is satisfied that the new system is stable. It is planned that this will be preceded by a full dry run which will include reconciliation at case level to ensure that data will be transferred accurately

Conversion

3.9 Once migration has been completed, conversion is the process whereby all existing maintenance assessments will be recalculated using the new rules introduced by the reforms. Conversion will lead to some existing assessments changing and clients either paying or receiving more or less than under the previous arrangements. Changes in liability will be phased in over a period of up to five years to help clients adjust to the new amounts. The Agency has a strategy in place to deal with queries from customers and has set up customer contact centres to ensure that queries from customers whose assessments have changed can be dealt with quickly. As part of the strategy a mailshot has been sent to customers describing the forthcoming changes. Further mailshots are planned to keep customers advised of the changes.

System Functionality

3.10 When the new system went live the Agency recognised that there were a number of issues

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which could not be resolved immediately. Alternative processes have been introduced, including manual procedures, until the relevant enhancements to the computer systems are developed, tested and implemented.