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# **Child Support Agency Client Funds Account 2003-04**

**Report by the Comptroller and Auditor General**

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# 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. Its main purpose is to ensure that non-resident parents meet their financial responsibilities towards their children.
2. At 31 March 2004 the sum of £976 million was due to be collected by the Agency from non-resident parents for payment mainly to parents with care, around £160 million arising from transactions in 2003-2004 and £816 million brought forward from previous years. As a result of my audit examination of the Agency's Client Funds Account for 2003-2004 (which considered both assessment accuracy and the effective dates of calculated awards), I have concluded that a significant proportion of individual debt balances that make up the £976 million were incorrect. This was mainly because of historic errors in the underlying maintenance assessments.
3. The Agency has improved accuracy levels in recent years on old scheme cases and intended to address historic errors as part of Child Support Reform. This has not yet been possible and the issue continues to have an impact on debt levels. In 2003/04 last action accuracy on the existing caseload was 85.6 per cent, measured to the nearest penny.
4. In 2003-04 the Agency received £601 million from non-resident parents and made payments of £447 million to parents with care. In addition £144 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. Following my audit examination I estimate that 28 per cent of payments by non-resident parents received by the Agency in 2003-2004 for onward transmission mainly to parents with care were incorrect.

5. I have qualified my opinion because of errors in maintenance assessments and the impact of this on receipts, payments and debt balances. The estimated effect of the errors on the account is set out in Figure 1.

**Figure 1: Estimate of errors in the Client Funds Account 2003-04**

	<b>Estimated Overpaid/overstated (£ million)</b>	<b>Estimated Underpaid/understated (£ million)</b>
Payments by non-resident parents	10.7	15.3
Level of recoverable debt as at 31 March 2004 relating to full maintenance assessments <sup>1</sup>	161.2	99.6
Level of recoverable debt as at 31 March 2004 relating to interim maintenance assessments <sup>1</sup>	8.6	5

<sup>1</sup> Full and interim maintenance assessments are defined in paragraph 1.8 of this report.

6. The Child Support Reforms (the Reforms) were introduced in March 2003. They involve a simplified set of new rules for maintenance calculation, stronger powers for the Agency to improve the flow of maintenance and revised administrative arrangements to secure better engagement with parents and a faster turnaround of applications. The implementation of the Reforms is supported by a new computer and telephony system. This was designed and developed by Electronic Data Systems Limited (EDS) on behalf of the Department for Work and Pensions under a Private Finance Initiative and is based on a High Level Business Requirement provided by the Agency.
7. The Agency's performance in 2003-2004 against key targets is given in Figure 2.

**Figure 2: Performance in 2003-04 against key targets**

Performance measure	New Rules		Old Rules	
	Target	Achieved	Target	Achieved
Case Compliance (1)	78%	50%	75%	75.4%
Case Throughput (2)	6 weeks	-	N/A	N/A
Last Decision Accuracy (3)	90%	81.8%	82%	85.6%
Full Assessment Accuracy (4)	-	79.5%	-	79.8%

Notes:

<sup>1</sup> Case Compliance is defined as 'To collect child maintenance and arrears from 75% of non-resident parents with liability due to be paid through the Agency's collection service' for old scheme assessments, and 'Child maintenance and/or arrears to be collected where there is maintenance liability due to be paid through the collection service from 78% of cases.' for new scheme assessments.

<sup>2</sup> Throughput is defined as 'payment arrangements for new scheme cases will have been established on average within six weeks.' The Agency does not yet have management information that can measure with accuracy progress against this target.

<sup>3</sup> This is the accuracy of the last decision taken on each case.

<sup>4</sup> This is the accuracy of assessments through the life of a case.

8. The Agency currently deals with around 2 million parents with care and non-resident parents. During 2003-04 the Agency implemented new complaint handling and monitoring arrangements. These involved more accurate recording of complaints and include for the first time written and telephone complaints. In the year it received 49,215 complaints. In the same period the Independent Case Examiner's Office, which provides a free, impartial complaint review and resolution service to Agency customers, accepted 924 complaints for investigation (compared to 702 in the previous year). Of these 255 related to applications made after March 2003. 40 per cent of the complaints received in the year were about delays, a further 33 per cent were about errors. Of the complaints investigated in 2003-2004, 788 (63 per cent) were upheld.
9. I shall be reporting later on the Agency's plans to achieve its agreed targets and to provide a faster and improved service to its clients.

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# Report

## Introduction

1.1. Under the Government Resources and Accounts Act 2000 I am required to examine and certify the Child Support 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 2003-04 Account.

## Background

1.2. The 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 Agency:

- calculates appropriate levels of maintenance to be paid by non-resident parents;
- 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.

1.3. Up to 3 March 2003, all applications for child support maintenance were assessed against formulae that required Agency staff to obtain information about the personal circumstances of both the non-resident parent and the parent with care. It involved gathering many separate pieces of information about income, housing costs and other expenses from clients who may have been reluctant to provide this information. The complexity of this process resulted in a significant risk of error occurring in the resulting maintenance assessment. Also, the basis of maintenance assessments was not transparent to customers and there were often long delays before maintenance was assessed and paid.

1.4 Recognising that the system had failed to deliver regular maintenance and had become discredited, and that the complex rules did not fit with the lives of separated families or with other systems of support, the Government set out its plans for Child Support Reforms in a White Paper published in July 1999. The Reforms, as subsequently set out in the Child Support, Pensions and Social Security Act 2000, were intended to address the:

- difficulty in making and understanding the maintenance calculation;
- lack of effective enforcement action to encourage non-compliant parents;
- lack of engagement with parents to work together effectively; and
- length of time it took to move from application to assessment to a flow of maintenance.

1.5 The main operational elements of the reforms are:

Issue	Action
Maintenance calculation	The new scheme sets maintenance in the first instance as a fixed percentage of the non-resident parent's net income, depending upon the number of children being maintained. Further adjustments are made in respect of, for example, shared care arrangements. This simplified starting point is intended to provide clarity over payment levels.
Enforcement action	The White Paper included proposals to ensure that the flow of maintenance is maintained, with fines up to £1,000 for non-compliance and increased use of deduction of earnings orders. Legislative changes under the Child Support, Pensions and Social Security Act 2000 included measures such as the criminalisation of providing false evidence to the Agency and empowerment of the Agency to confiscate non-resident parent driving licences as an alternative to committal.
Engagement with parents	Greater emphasis is now placed on collecting information and clearing issues through telephone contact with the parties involved. A significant part of the infrastructure supporting the Reforms centres on advanced telephony arrangements. These can route enquiries directly to specific front-line staff responsible for an individual case, which are able to access case details at the time of the call.
Faster turnaround	Under the old scheme, cases could often take more than six months from initial application to maintenance being received. The target under the new, simpler scheme of assessments is six weeks.

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- 1.6 The Agency began processing applications under the new rules from 3 March 2003. This is to be followed by the transfer of existing cases to the new system and their subsequent conversion from the old scheme of assessments to the new. However, during 2003-2004 the Agency experienced a range of difficulties with the computer and telephony service provided by EDS and associated new methods of working have yet to be fully implemented.
- 1.7 EDS have provided the Child Support Agency with their plans to release a series of enhancements to the system to remove known defects and to enable the transfer of old cases onto the new system. The Agency is continuing to discuss with EDS enhancements focused on achieving the intended business improvements.

## **Audit Results**

- 1.8 At 31 March 2004, £976 million was due to be collected by the Agency from non-resident parents for payment mainly to parents with care, around £160 million arising from transactions in 2003-2004 and £816 million bought forward from previous years. The high level of debt associated with maintenance assessments for which payments have not been made in full is classified as:
- Full Maintenance Assessment - where a complete assessment has been made under the old rules and both the parent with care and the non-resident parent provide the Agency with all the information requested;
  - Maintenance calculation – where the new rules apply and both the parent with care and the non-resident parent provide the Agency with all the information requested;
  - Interim Maintenance Assessment - where the old rules apply and the Agency is unable to obtain sufficient information to make a full maintenance assessment; and
  - Default maintenance decision – where the new rules apply and the Agency is unable to obtain sufficient information to make a maintenance calculation.



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1.9 As at 31 March 2004 the amount due from full maintenance assessments was £720 million, including £35 million of maintenance calculation debt where the new rules apply. The amount deemed to be recoverable from interim maintenance assessments was £256 million, including £4 million of default maintenance assessment debt where the new rules apply.

### **Amounts owed**

1.10 The National Audit Office checked a representative sample of non-resident parents' maintenance arrears balances arising under the old scheme of assessments. 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 adopted is both assessment accuracy and the effective dates of calculated awards. This examination identified errors in:

- 85 per cent of full maintenance balances; and
- 53 per cent of interim maintenance balances.

1.11 From these results the National Audit Office estimates that the £720 million considered recoverable as at 31 March 2004 from non-resident parents for full maintenance assessments is likely to include overstatement errors amounting to an estimated £161.2 million (22.4 per cent of the total) and understatement errors amounting to an estimated £99.6 million (13.8 per cent of the total).

1.12 Similarly the National Audit Office estimates that the £256 million considered recoverable as at 31 March 2004 from non-resident parents in respect of interim maintenance assessments is likely to include overstatement errors amounting to an estimated £8.6 million (3.4 per cent of the total) and understatement errors amounting to £5.0 million (1.9 per cent of the total).

1.13 In light of these results, I have concluded that the amounts recorded in the Account as being considered recoverable from non-resident parents as at 31 March 2004 are materially mis-stated, and I have qualified my opinion on the Account in respect of this.

### **Receipts and Payments**

1.14 In 2003–2004 the Agency received £601 million from non-resident parents and made payments of £447 million to parents with care. In addition, £144 million was

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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.

- 1.15 The National Audit Office examined a representative sample of receipts from non-resident parents during 2003-04. In 28 per cent of cases examined receipts were found to be incorrect, that is, an accuracy rate of 72 per cent, mainly due to errors in the underlying assessments. The Agency's Monitoring and Guidance Unit that reviews the accuracy of maintenance assessments has reported an accuracy rate of 79.8 per cent for assessments throughout the life of a case under the old rules and 79.5 per cent for cases under the new rules. It has also reported on the accuracy of the last decision taken on each case as 85.6 per cent under the old rules ( an increase over recent years) and 81.8 per cent for cases under the new rules. (figure 2 on page 3).
- 1.16 The sampling techniques used have allowed the National Audit Office to extrapolate the results of their 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 £10.7 million (1.8 per cent of total receipts) while underpayments amounted to £15.3 million (2.5 per cent of total receipts). The total of estimated over and under payments is a material sum and I have therefore also qualified my opinion on the Account in respect of this matter.

### **The Reforms**

- 1.17 While the Reforms are clearly intended to address the weaknesses of the old scheme the Agency has, to date, not been able to realise their full potential. Performance targets for cases processed under the new rules are not being met in terms of case compliance and the accuracy of maintenance assessments and are not yet matching performance under the old rules (Figure 2).

### **Complaints**

- 1.18 The Agency currently deals with around 2 million parents with care and non-resident parents. During 2003/04 the Agency implemented new complaint handling and monitoring arrangements. These involved more accurate recording of complaints and include for the first time written and telephone complaints. In the year it received 49,215 complaints. In the same period the Independent Case Examiner's Office,

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which provides a free, impartial complaint review and resolution service to Agency customers, accepted 924 complaints for investigation (compared to 702 in the previous year). Of these 255 related to applications made after March 2003. 40 per cent of the complaints received in the year were about delays, a further 33 per cent were about errors. Of the complaints investigated in 2003-2004, 788 (63 per cent) were upheld.

**John Bourn**  
**Comptroller and Auditor General**  
**20 July 2004**