



National Audit Office

14 DECEMBER, 2017

Department for Work & Pensions

**1993 and 2003 Child Maintenance Schemes
Client Funds Account: Report by the
Comptroller and Auditor General to the House
of Commons**

Introduction

1 The Department for Work and Pensions (the Department) is responsible for administering statutory child maintenance schemes in Great Britain, and the management of client funds relating to these schemes. 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.

2 This report relates specifically to the Client Funds 1993 and 2003 schemes Account (the Account) and considers the Department's progress in its management and closure of cases on these schemes. I have produced a separate report on the Client Funds 2012 scheme Account (HC609).

Key findings

3 **The Department for Work and Pensions (the Department) has not managed 1993 and 2003 child maintenance scheme cases with sufficient accuracy.** This has led to material levels of inaccurate receipts and payments in the 2016-17 Account. Where assessment calculations are inaccurate, the associated receipts and payments do not conform to scheme rules and are irregular. I have therefore qualified my regularity audit opinion in respect of these inaccurate receipts and payments, which I estimate to be £11.3 million, 2.75% of the total value of receipts made during the year. The modifications to my regularity audit opinion on the Account are longstanding and reflect significant and ongoing problems in the accurate calculation of maintenance and with the underlying IT systems.

4 **The £3.7 billion arrears balance reported does not provide a true and fair view of unpaid maintenance.** I estimate that the arrears balance is understated by at least £99.8 million, 2.67% of the total arrears balance. Individual arrears on cases are misstated due to errors in the underlying assessment calculations and due to errors in adjustments to the balances, compounded where cases are managed outside of the IT systems.

5 **The Department is closing all cases on the 1993 and 2003 schemes.** By the end of December 2018, all child maintenance cases in Great Britain requiring state support will be administered under the newer 2012 child maintenance scheme. The Department is running the older 1993 and 2003 schemes concurrently with the 2012 scheme while it closes 1993 and 2003 cases.

6 **Case closure will not address all issues relating to the 1993 and 2003 child maintenance schemes.** The Department continues to seek recovery of arrears accumulated under the older schemes but is not carrying out retrospective correction of arrears to ensure the accuracy of the £3.7 billion that is owed. It is also unable to write off arrears that are uncollectable, except in very limited circumstances. Without such actions the issues that have led me to issue an adverse opinion on the arrears balance will remain unresolved, and the accounts will continue to report a significant outstanding arrears balance long after all cases are closed.

Recommendations

7 The issues that lead me to qualify the Account are not expected to be sufficiently addressed in the course of case closure as currently planned. It is my view that the inaccuracies, both historic and current, in the arrears balance and the ongoing maintenance assessments need to be addressed by the Department both for the benefit of the people who have used this service, and to be able to draw the 1993 and 2003 schemes to a full close. I recommend that the Department:

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- Ensures that case closure is completed by the end of December 2018, the current legislative timescale. Case closure can cause disruption to parents who have or have had child maintenance cases under the 1993 or 2003 child maintenance schemes. It is important that this disruption is minimised;
 - Provides sufficient, accurate data to parents on case closure to enable parents to make informed decisions about their child maintenance arrangements and to pay any arrears due.
 - Concludes the consultation on outstanding arrears balances and takes action to ensure that these balances can be collected or written off and do not remain as an outstanding balance long past the closure of all active cases.

Qualified opinion due to irregular receipts and payments

1.1 As the independent external auditor, I am required to give an opinion on whether, in all material respects, the Account properly presents the receipts and payments for the year ended 31 March 2017 and whether these transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them (the 'regularity' opinion).

1.2 While the Account properly presents the amounts of child maintenance received and paid in year, I have again 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 specific legislative requirements and therefore associated receipts and payments are irregular.

1.3 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. It is this level of complexity, together with inadequate computer systems, that has led to the significant levels of error in child maintenance assessment calculations historically.

1.4 As part of my audit I have reviewed the findings of the Department's Quality Assurance Team (QAT) that carries out testing of child maintenance assessments and have estimated that errors in assessments result in overpayments of child maintenance amounting to £5.6m (£3.3m in 2015-16) and underpayments totalling £5.7m (£4.5m in 2015-16). 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 a gross value of irregular receipts and payments of £11.3m for 2016-17, representing 2.75% of total receipts (£7.8m in 2015-16, representing 1.22% of total receipts).

1.5 Unlike the 2012 child maintenance 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 in the 2016-17 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 2016-17 in isolation, but also take account of historic rates of error when forming my estimate of accuracy in receipts and payments. Therefore, the error rate I have estimated will differ from the in-year error rate calculated by the Department.

Adverse opinion on Note 5 ‘Outstanding Maintenance Arrears’

1.6 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 5 of the Account. The balance of £3.7 billion as at 31 March 2017 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 limited circumstances.

1.7 I am required to give an opinion on whether the outstanding maintenance arrears balance as at 31 March 2017 is true and fair. In my opinion there is material error in the value of arrears recorded in Note 5 to the Account and as a result I have concluded that Note 5 does not give a true and fair view of the maintenance arrears outstanding at 31 March 2017. My view is primarily a result of the impact on the arrears balance of incorrect maintenance assessments, incorrect adjustments of arrears, and management of records outside of the 1993 and 2003 IT systems that results in further errors.

1.8 Of these three factors, I am only able to quantify reliably the impact of incorrect adjustments to arrears balances. 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 due.

1.9 Note 5 to the Account reports the arrears balance net of any caseworkers’ adjustments, which means that any errors made in the calculation of these adjustments affect the arrears balance reported. I estimate that arrears are understated by around £99.8 million (2.7% of the total arrears balance), made up of an estimated overstatement of £16.0 million, 0.4% of the total arrears balance (£15.9m in 2015-16) and understatement of £115.8 million, 3.1% of the total arrears balance (£115.8m in 2015-16) as a result of such errors. The Department is unable to adjust the arrears note in order to correct these errors as this an estimate of misstatement not individual errors on individual arrears balances.

1.10 The Department is no longer able to provide sufficient data to quantify the impact of incorrect maintenance assessments on arrears. Where the Department has made incorrect maintenance assessments, any arrears accruing will also be at an incorrect rate. Historic estimates of the impact of incorrect assessment on arrears were material; as no action has been taken to correct these assessments I consider there remains a material level of error in arrears balances as a result of incorrect maintenance assessments.

1.11 The Department is also unable to quantify the level of errors introduced in administering cases outside of the IT systems, and the impact of these on the arrears balance. In previous years I have identified error in these cases that the Department has not taken action to correct.

1.12 As the impact of incorrect adjustments to arrears is, alone, material to the value of the arrears balance, I have not sought to quantify the impact of incorrect maintenance assessment or errors in the administration of records outside of the IT systems in forming my opinion on the arrears balance.

Closure of the 1993 and 2003 child maintenance scheme cases

1.13 The Department's focus continues to be on the closing of cases on the 1993 and 2003 schemes and supporting customers to either create a family based arrangement or apply under the 2012 scheme rules to arrange child maintenance. The Department has prioritised closing cases with continuing maintenance payments, but has closed some cases with arrears only as part of a pathfinder exercise.

1.14 The Department, in its experimental statistics reporting the progress of case closure up until June 2017¹, has reported that 771,000 cases had been closed as of June 2017 of a total expected 812,000 cases due to be closed.

Impact of case closure on the regularity of receipts and payments

1.15 Cases assessed under the 2012 child maintenance scheme are increasingly automated and the Department has reported significantly improved accuracy as a result. Any parents opting to apply for a case under the new scheme after the closure of their 1993 or 2003 schemes case will have their case assessed in accordance with much simpler 2012 child maintenance scheme rules. Further detail on the 2012 child maintenance scheme can be found in my report on the Client Funds 2012 Scheme Account (HCxxx).

1.16 Once all cases assessed under the 1993 and 2003 schemes have been closed, the value of receipts and payments made in the Account will decrease significantly as the only receipts and payments recognised will be those that relate to arrears built up prior to cases being closed. However, some of these receipts and payments will continue to relate to arrears built up on the basis of inaccurate assessments and so will not be in accordance with the scheme rules and will be irregular.

Impact of case closure on the outstanding arrears balance

1.17 As cases are closed, parents with care are asked whether they wish for the arrears built up under the 1993 or 2003 schemes to be written off. To date, very few balances have been written off, so the likely position following full case closure is that the Account will continue to disclose a large arrears balance; a balance that I consider to be materially misstated.

1.18 The Department notes in its annual report that £3.0 billion of the £3.7 billion arrears balance is considered uncollectable. These arrears are largely long standing and, being older balances, can be more difficult to recover. The Department also, currently, has limited powers to write off arrears balances accumulated. With a few exceptions, write-off can only take place with agreement from both parents or with the death of the non-resident parent.

1.19 The Department has a proposal out for consultation which aims at tackling the current outstanding arrears balance. This proposal includes specific actions the Department intends to carry out, which would go some way in reducing the overall arrears balance. However, it is currently unclear how much of the £3.7 billion this proposal would address if it is approved.

1.20 In March 2017 I reported on the case closure programme in my investigation 'Child maintenance: closing cases and managing arrears on the 1993 and 2003 schemes' (HC1054). In response to concerns raised with me by Parliament and users of the schemes, I reported on the Department's closure of cases on the 1993 and 2003 schemes, and also the management of arrears on those schemes.

1.21 During my investigation I found that, although the Department has taken steps to 'cleanse' arrears balances through resolving any outstanding actions or queries from parents on cases due for closure, a full recalculation of the arrears balance is not performed and therefore errors relating to incorrect assessments

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/642327/csa-case-closures-to-june-2017.pdf

or adjustments continue to exist within the arrears balances for some cases. The Department has informed me that cleansing this arrears balance would require a significant level of manual intervention and that it is prioritising the resourcing of other activities in the Department, including welfare reform.

1.22 The likely position, following full case closure, is that this account will continue to disclose a large arrears balance, even after all cases are closed, a balance that I consider to be materially misstated.

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