



**Child Support Agency  
Annual Report and  
Accounts 2007/08**

**child support agency**  
Part of the Department for Work and Pensions

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# Child Support Agency

## Annual Report and Accounts 2007/08

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## Members of the Child Support Agency board

<b>Name</b>	<b>Role</b>	<b>Date of appointment</b>
Richard Arthur	Non-Executive Director	15 March 2006
John Cross	Non-Executive Director	1 July 2003
Bryan Foss	Non-Executive Director	15 March 2006
Stephen Geraghty	Chief Executive	1 April 2005
Bill Griffiths	Non-Executive Director	15 March 2006
Mark Grimshaw	Chief Operating Officer	17 January 2005
Alan Hardy	Finance and Business Assurance Director	3 April 2006
Peter Holden	Non-Executive Director	15 March 2006
Susan Jillings	Non-Executive Director	23 February 2006
Susan Park	Strategy, Policy and Development Director	3 April 2006
Ian Pavey	Human Resources Director	8 May 2006
Keith Woodhouse	Business Design Director	11 September 2006

## Message from the Chief Executive

This report covers the second year of our Operational Improvement Plan. It was a year that saw the Agency performing better than at any point in its 15-year history – achieving all of our Secretary of State targets for the first time. More maintenance is being collected or arranged, more children are benefiting, the number of uncleared applications is at an all time low, and new cases are being dealt with more quickly than ever before. We collected or arranged more than £1 billion in child maintenance from which 750,000 children are now benefiting. The year also saw significant steps being made towards the redesign of the child maintenance system, with the Child Maintenance and Other Payments Act passing through Parliament and paving the way for the establishment of the Child Maintenance and Enforcement Commission. It is currently anticipated that the transfer of Agency people and functions to the Commission will happen in the autumn of this year. In preparation for this move the Agency and the Commission will work together over the summer to prepare the ground and inform clients of the changes which affect them.

The three year Operational Improvement Plan aims to improve client service and operational performance, as well as to provide a stable base for the more radical, longer term redesign of the child maintenance system. In the first year we focused on improving our operational capacity and capability, reorganising operations, training team leaders and changing the culture of the Agency to be more client-focused and professional.

Year two of the Operational Improvement Plan was about increasing productivity, collections and compliance. We reorganised our work in line with the new team structures and introduced a series of initiatives designed to improve performance and further improve client service (while reducing our headcount by 1,538 in line with the Gershon efficiency challenge faced by the department as a whole).

As a result:

- In the final quarter of 2007/08, a total of 749,300 children benefited from child maintenance, up from 683,000 in the quarter to March 2007 and 561,100 in the quarter to March 2005.
- In the year to March 2008, the Agency collected or arranged £1,010m in child maintenance, up from £898m in the year to March 2007 and £798m in the year to March 2005. The amount of arrears collected was £126m, exceeding our end-of-year target of £120m.
- In the final quarter of 2007/08, maintenance outcomes (the percentage of parents with a liability who pay child maintenance) was 67 per cent, up from 65 per cent in March 2007 and 63 per cent in March 2005.
- 77 per cent of new applications received in December 2007 were cleared within 12 weeks, up from 61 per cent in December 2006 and 30 per cent in December 2004.
- By 31 March 2008, the volume of uncleared current scheme applications was at an all time low of 107,000, a reduction of 46,700 since March 2007 and 119,000 since March 2005.
- In the year to March 2008, the Agency answered 98 per cent of telephone calls available to answer (against a target of 95 per cent), with an average waiting time of 20 seconds, up from 84 per cent answered with a waiting time of 1 minute 40 seconds in March 2005.

### Client Service – Five Year Performance Trends

Performance measure	2005 Actual	2006 Actual	OIP Year 1 2007 Actual	OIP Year 2 2008 Actual	OIP Year 3 2009 Plan
<p><b>Application clearance</b> %age of current scheme applications cleared by 31 March within:</p> <ul style="list-style-type: none"> <li>– 12 weeks (Dec intake) 30%</li> <li>– 18 weeks (Oct intake) 37%</li> <li>– 26 weeks (Sep intake) 46%</li> </ul>					
	30%	53%	61%	77%	80%
	37%	61%	64%	83%	85%
	46%	67%	78%	88%	90%
<p><b>Uncleared current scheme applications</b> at 31 March</p>	225,300	220,400	153,300	106,600	90,000
<p><b>Telephony</b> Average answer time from queue over the year</p>	1 min 40 seconds	59 seconds	26 seconds	20 seconds	Less than 30 seconds
<p>%age of lost calls in year to 31 March</p>	16%	9%	3%	2%	Less than 5%

### Maintenance Outcomes - Five Year Performance Trends

Performance measure	2005 Actual	2006 Actual	OIP Year 1 2007 Actual	OIP Year 2 2008 Actual	OIP Year 3 2009 Plan
<b>Number of children benefiting</b> Quarter ending 31 March	561,100	623,000	683,300	749,300	790,000
<b>Cases in receipt of maintenance</b> 'Maintenance Direct' or collection service Quarter ending 31 March	403,800	454,300	495,100	547,700	579,000
<b>Maintenance Outcomes</b> % age of cases with a current liability receiving maintenance in the Quarter ending 31 March	63%	63%	65%	67%	69%
<b>Maintenance collected</b> or arranged year ending 31 March	£798 m	£836 m	£898 m	£1,010m	£1,080m

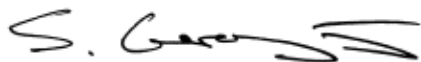
The tables show the progress we have made and what remains to be done in year three of our Operational Improvement Plan. During this period we will focus on extending the benefits of improved performance to more parents – with new tools, techniques and training delivered to our people to support our ongoing focus on collections and compliance and therefore helping us to deliver our March 2009 commitments:

- 790,000 children benefiting
- £1,080 million maintenance collected or arranged
- 69 per cent maintenance outcomes
- Reducing the number of uncleared current scheme applications to no more than 90,000.

Given what we have achieved in the first two years of the Operational Improvement Plan I am confident we can deliver these commitments while also delivering the major upgrade to the computer system on which further improvements in future years will depend.

The Agency's achievements over the past year have made a significant difference to many children and I am particularly gratified that we continued to deliver in line with our Operational Improvement Plan. As we enter the third and final year of the plan and the time at which responsibility for child maintenance in Great Britain will move to the Child Maintenance and Enforcement Commission I would like to thank all of my colleagues for what they have achieved in difficult circumstances and express my confidence that they will continue to make a real difference to the lives of increasing numbers of children in the future.

Signed



**Stephen Geraghty**

Chief Executive

15 July 2008

## About the Child Support Agency

The Child Support Agency continues to be a part of the Department for Work and Pensions until the planned transfer of its functions to the Child Maintenance and Enforcement Commission later in 2008.

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

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

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

The Child Support Agency employs 9,502 people (full-time equivalent position at March 2008), with additional people employed by the Department for Social Development Northern Ireland and our contractor who provides our clerical case services, who both carry out work for the Child Support Agency. We work from seven main sites, with a network of smaller sites across England, Scotland and Wales. Our main offices are in:

Dudley  
Hastings  
Falkirk  
Plymouth  
Birkenhead  
Belfast  
Newcastle

At 31 March 2008 the open caseload of the Child Support Agency was 1,362,000, with 683,000 (up from 596,000) cases operating on the current scheme and 679,000 (down from 764,000) cases on the old scheme. A further 324,000 cases without an ongoing assessment have outstanding uncollected arrears.

### Our role

We support parents in taking responsibility for their children by:

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

## **Our main activities**

We:

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

We also continue to maintain child maintenance arrangements by:

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

## **Improving delivery of our services**

In April 2006 we launched our Operational Improvement Plan to:

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

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

### **First year: Preparation and Client Service**

**In the first year we:**

- reviewed our processes and reorganised the way we operate around our clients
- trained our people and developed our culture
- improved the service we offer, particularly for new applications.

### **Second year: Productivity and Enforcement**

**In this past year, we have:**

- focused on collections and enforcement
- further improved our client experience
- made progress towards implementing a major upgrade to our computer system to improve productivity.

## **Third year: Performance**

**In the third year, we will work towards the delivery of our March 2009 commitments to successfully conclude the Operational Improvement Plan:**

- 790,000 children benefiting
- £1.08 billion maintenance collected or arranged
- 69 per cent maintenance outcomes
- Reducing the number of uncleared current scheme applications to no more than 90,000 which equates to 12 weeks of intake.

The Agency will also be working in year three of the Operational Improvement Plan to ensure the successful delivery of the planned upgrade to the Agency's IT system, alongside managing existing CSA clients who are parents with care on benefits through the removal of compulsion to use the CSA and opt for a private arrangement if they so choose, and implementing the new £20 per week child maintenance disregard across both current schemes.

## **The Child Support Agency values**

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

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

Operational improvements across the Child Support Agency are underpinned by cultural change plans, which support new ways of working. The culture change programme accelerated during 2007/08, and we will continue to listen to feedback from our clients and our people to measure the success of the change programme through 2008/09 and beyond.

## Management Commentary

### **Development and performance of the Child Support Agency during the year**

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

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

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

Net operating cost shown in the financial statements for the Administration Account is £563 million (2006/07, £520 million). This included funding for the major part of the three year Operational Improvement Plan investment, that supports the drive to improve productivity and the planned major upgrade of the computer system in year three of the plan.

By the end of March 2008 the Child Support Agency caseload stood at 1,362,000 cases, 679,000 on the old scheme and 683,000 on the current scheme. This compares to March 2007 when the caseload was 1,360,000 cases of which 764,000 were old scheme and 596,000 were current scheme cases. In March 2008, 48 per cent of the old scheme cases with an assessment and 84 per cent of the current scheme cases had a positive liability to pay child maintenance.

### **Performance commentary – achievements in Year Two of the Operational Improvement Plan**

In the first year of the Operational Improvement Plan, the Agency concentrated on organisational and operational restructuring to increase the capacity and capability of its people.

In 2007/08 the Agency has met or exceeded all of its Secretary of State targets demonstrating that it is making more difference for more children. This progress has been possible due to the Child Support Agency's introduction of new ways of working under the Operational Improvement Plan along with the tools, training and techniques that support operational colleagues in delivering improved client service and more client outcomes.

While there remains more to do, this provides a solid foundation on which to deliver the third year of the Operational Improvement Plan.

Performance highlights to the end of March 2008 include:

- More money to more children – 66,000 more children were in receipt of maintenance via the Child Support Agency or a 'Maintenance Direct' arrangement than in March 2007. A total of 749,000 children are therefore now benefiting from child maintenance.
- More than £1 billion worth of child maintenance was collected or arranged by the Agency during the last 12 months – a first in the Agency's 15-year history.
- A reduction in uncleared current scheme applications: Uncleared applications are down to 107,000. This is 47,000 less than in March 2007 and 114,000 less than March 2006. Total uncleared applications on the old and current schemes are now at less than half the level they were when the current scheme was launched in March 2003.
- Client service is improving – Applications are being cleared faster than ever before. 77 per cent of new applications received in December 2007 were cleared within 12 weeks, up from 61 per cent for the December 2006 intake.
- Over the 12 months up to March 2008 the Child Support Agency answered 98 per cent of telephone calls available to answer (against a standard of 95 per cent), with an average waiting time of 20 seconds.

All statistics used in this Management Commentary are based on the Child Support Agency's Quarterly Summary of Statistics, a National Statistics publication: <http://www.dwp.gov.uk/asd/csa.asp>

## **Progress against the Secretary of State targets**

### **More Money for More Children**

#### **Target:**

By 31 March 2008, maintenance will be collected or arranged by the Agency on behalf of 720,000 children.

#### **Outcome:**

The Child Support Agency exceeded the Secretary of State target by 29,000 children; by the end of March 2008, 749,000 children were in receipt of maintenance or had a 'Maintenance Direct' arrangement in place.

### **Maintenance Collected or Arranged**

#### **Target:**

Collect or have arranged £970 million in child maintenance between 1 April 2007 and 31 March 2008; of which at least £120 million maintenance will be arrears.

#### **Outcome:**

In the year to March 2008, the Agency collected or arranged a total of £1,010m in child maintenance, up from £898m in the year to March 2007. The amount of arrears collected was £126m, up from £91m in March 2007.

## **Maintenance outcomes**

### **Target:**

By 31 March 2008, in 66 per cent of cases across both the old and current schemes in which a liability to pay maintenance exists, the non-resident parent has either made a payment via the collection service or a Maintenance Direct arrangement is in place.

### **Outcome:**

A higher proportion of non-resident parents are paying child maintenance to us or using 'Maintenance Direct'. In March 2008, 67 per cent of cases with a liability made a payment or arranged 'Maintenance Direct', up from 65 per cent in March 2007.

## **Uncleared current scheme applications**

### **Target:**

By 31 March 2008, the volume of uncleared current scheme applications will be no more than 140,000.

### **Outcome:**

By 31 March 2008, uncleared applications were down to 107,000. This is 47,000 less than in March 2007.

## **Future targets**

The Secretary of State targets for 2008/09 are as follows:

### **More Money for More Children**

By 31 March 2009 maintenance will be collected or arranged by the Agency on behalf of 790,000 children.

### **Maintenance Collected or Arranged**

Collect or have arranged £1,080 million in child maintenance between 1 April 2008 and 31 March 2009; of which at least £220 million maintenance will be arrears.

### **Maintenance Outcomes**

By 31 March 2009, in 69 per cent of cases across both the old and current schemes in which a liability to pay maintenance exists, the non-resident parent has either made a payment via the collection service or a Maintenance Direct arrangement is in place.

### **Uncleared Work**

By 31 March 2009, the volume of uncleared current scheme applications will be no more than 90,000.

# Making More Difference For More Children - Delivering Year Three of the Operational Improvement Plan

The Operational Improvement Plan was launched in April 2006. The plan, which lasts for three years, was designed to help the CSA fundamentally change the way it works. It is set out under four headings:

- Getting it right – gathering information and assessing applications
- Keeping it right – active case management
- Putting it right – enforcing responsibilities
- Getting the best from the organisation.

In 2007/08, the Agency delivered the second year of the plan. The priorities for that second year were set out in the Child Support Agency's Business Plan 2007/08.

## 1) Getting it right – gathering information and assessing applications

### **We said we would:**

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

### **We have:**

Rewritten and rationalised our leaflets so that they are clear, easy to understand and help our clients know where they are in the process. We have also redesigned our letters so that they are simple to understand and explain clearly what clients need to do. In addition, an extensive programme of telephony and negotiation skills training has been introduced for all our people to help them manage cases in a quicker and more professional way, and therefore improve both the service and outcomes we provide to our clients.

## 2) Keeping it right – active case management

### **We said we would:**

- Improve the Child Support Agency's complaints handling process

### **We have:**

Implemented an improved two-tier complaints handling process to ensure complaints are dealt with consistently and promptly. We continue to learn from external bodies such as the Independent Case Examiner about how to get the right results for our clients. By March 2008, 93 per cent of cases had their complaints dealt with within 15 days or had resolution plans agreed, which is an increase of 17 per cent on the same period last year.

### **We said we would:**

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

**We have:**

Conducted an enforcement campaign which targeted the highest concentrations of non-compliant non-resident parents across eight cities in the UK. The campaign used a combination of media to create a 'net closing in' effect, with radio advertising in the target cities, billboards and posters in target neighbourhoods, and posters in local pubs and gymnasiums. The Agency then sent letters to targeted individuals, followed by a phone call to negotiate collections and compliance.

Largely as a result of the campaign, more than 1,300 non-resident parents made arrangements or agreements to pay debt valued at over £3,500,000 over two years.

**3) Putting it right – enforcing responsibilities****We said we would:**

- Collect debt, both by our own people and through working with specialist debt collection agencies.

**We have:**

Collected £126 million worth of debt throughout 2007/08. Activities included revising our debt collecting approach, working with specialist debt collecting agencies, and training our caseworkers in telephony and negotiation techniques.

**We said we would:**

- Improve our computer system which will boost productivity, aid our debt and legal enforcement activities and increase levels of case compliance.

**We have:**

Made a number of incremental improvements to boost productivity, and are now in the final stages of testing the major upgrade to our computer system that supports the Agency's new ways of working.

**4) Getting the best from the organisation****We said we would:**

- Deliver a revised management information service to support managers in delivering on-going service improvements.

**We have:**

In July 2007 introduced new Management Information Reports that were made available to all team leaders and their deputies via a web portal. The reports, which were previously only available at Agency and area levels of the organisation, provide information down to individual team level. Work continues, as part of the planned major upgrade to our computer system, to deliver a data warehouse which will further enhance the Agency's management information service.

**We said we would:**

- Provide stronger planning and prioritisation, through more effective risk management.

**We have:**

Improved the professionalism of our risk management function during the year. An HM Treasury driven annual survey of risk management across Whitehall, increased our rating by 40 per cent from 14.5 to 20 demonstrating the progress achieved.

**We said we would:**

- Further develop our business operating model (or ways of working) by introducing specialist teams focused on non-resident parents by employment status.

**We have:**

Introduced the new specialist team structures and associated ways of working across our 'lines of business' which have delivered more of the outcomes our clients require: processing new applications more quickly; dealing more quickly and effectively with changes of circumstance; taking quicker and firmer action when payments break down; and increasing enforcement actions against those parents who evade their financial responsibility to their child(ren).

**We said we would:**

- Improve our computer system to help us:
  - o become more productive;
  - o sort out problems with cases which cannot currently be progressed;
  - o reduce the number of cases which need to be dealt with clerically;
  - o improve financial accounting; and
  - o manage payments more effectively for clients.

**We have:**

Implemented improved team level management information reporting which enable managers to more effectively prioritise the activities of their teams, which in turn has led to improved levels of performance. We have made improvements to the way in which cases migrate across our computer systems and this has reduced the number of cases becoming unable to be progressed. Changes have also been introduced to improve productivity by reducing the number of tasks which require manual intervention around our receipts and payments processes.

The major upgrade to our computer system was developed in the second year of the Operational Improvement Plan, and is now in the final stages of testing to give us the assurances we need that both the software works, and that the organisation is prepared to reap the benefits it will deliver for our clients. As part of our preparation we have rolled out an 'education programme' to make all of our people aware of the changes that the new software will deliver, which will be followed this year with the technical training required before the upgrade goes live.

## Future developments

In 2008/09 we will be delivering the third year of the plan. Our aims during the coming year include:

### Getting it right – gathering information and assessing applications

- Continuing to introduce new improved client letters and leaflets.
- Introducing improved trace facilities and risk profiling to find more evasive parents and be quicker in taking enforcement action where required.
- Continuing to train our people in telephony and negotiation skills.

### Keeping it right – active case management

- Further improvements to our complaints handling processes and associated systems to increase the speed of resolution for our clients.
- Introduce a new employer helpline to continue to improve our collections through deductions of earnings orders and voluntary deductions of earnings arrangements.

### Putting it right – enforcing responsibilities

- Introduce new financial information services to help our people negotiate more effective debt agreements.
- Continue to roll-out ‘court centralisation’ whereby the Agency can introduce larger volumes of liability order applications to continue to increase the volume of subsequent enforcement actions to recoup more debt.
- Improve the systems that our enforcement caseworkers and officers use to drive more enforcement actions against non-compliant parents and debtors.
- Introduce new debt processes and procedures, negotiation training, and communications with clients to support our drive to collect more of the money owed to children.
- Increase the use of direct marketing campaigns to engage debtors in negotiating arrears agreements that get more money for more children.

### Getting the best from the organisation

- Introduce the major upgrade to our computer system that supports the Agency's new ways of working to drive greater productivity and therefore deliver more outcomes for clients.
- Build on the Inspirational Leadership events that were conducted in the first year of the Operational Improvement Plan to continue to improve the Agency's capability in leading and motivating its people.

## Respecting People

### We said we would:

- Continue to provide training for people working in casework, team leader and operational management roles. This will be supported by on-going coaching to embed the new client-focused behaviours and ways of working throughout the Child Support Agency to improve services to our clients.

### We have:

Developed Telephony and Debt Negotiation training for caseworkers and their managers to improve our use of the phone as the primary method of communicating with clients and giving our people the skills and techniques required to successfully negotiate effective debt agreements. The training uses a combination of best practise techniques, realistic scenario and skills practice supported by coaching in the workplace, and has been delivered to more than 1,000 caseworkers. In the third year of the Operational Improvement Plan the remaining majority of the Agency's client facing employees will also receive this training.

An 'education programme' has been developed and delivered to all of our people to ensure they have the skills and knowledge to effectively utilise the system enhancements to be introduced in the forthcoming major upgrade to our computer system. The delivery approach for managers and team leaders focuses specifically on client service and performance management to reinforce the behaviours expected across the Agency.

**We said we would:**

- Engage with our people through surveys to measure progress towards the desired cultural change within the Child Support Agency. This will provide direction for further client focus work to be undertaken and will help to deliver more money for more children.

**We have:**

Measured the progress the Agency is making in 'living' its values of being client focused, professional, open and honest, and firm and fair. To support this culture change the Agency has provided all of its people with training and communications around the priorities our client insight research has demonstrated our clients say they want. This has helped ensure our people are available when clients want to speak with the Agency, that they better manage our overall clients experience, and that they understand the changes we are making are designed to further improve client service.

**Looking outwards – Working with stakeholders and others**

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

In 2007/08 we worked with a broad range of stakeholder organisations:

- Delivery Partners
- Client Representative Groups
- Advisory Bodies
- Employers
- Legal Representatives
- MPs and Ministers

Ways in which we have worked with our stakeholder organisations include:

- Holding regular face-to-face meetings, to discuss performance, elicit challenge and understand specific issues and concerns.
- Agreeing single points of contact for stakeholders to raise and escalate case or policy queries.
- Seeking input from stakeholders when developing new and existing communication products for our clients.
- Engaging directly with key stakeholder audiences by attending conferences and events.
- Developing bespoke information seminars for MPs and client representative groups.
- Agreeing and reviewing delivery performance through Service Level Agreements.
- Delivering presentations and awareness sessions at national and local stakeholder events.
- Providing timely information on Operational Improvement Plan changes and progress.
- Conducting quarterly surveys with our stakeholders to review our relationship and identify areas for improvement.

## The Child Maintenance and Enforcement Commission

In June 2007, the Child Maintenance and Other Payments Bill went before Parliament, proposing a future system that included:

- A new organisation.
- Choice for clients.
- Tougher enforcement.
- Improved debt powers.
- A simpler future scheme.

On 5 June 2008 the Bill received Royal Assent and therefore became an Act of Parliament, paving the way for the establishment of the Child Maintenance and Enforcement Commission.

Recruitment for senior positions in the Commission began with appointments made for the Chair (Janet Paraskeva) and the Commissioner (Stephen Geraghty). Recruitment of other key senior management roles is continuing, to ensure that the Commission can establish itself in 2008.

The passage of this legislation and the creation of the new Commission heralds the beginning of a new era for child maintenance.

Throughout 2007/08, the Agency continued to deliver improvements under the Operational Improvement Plan. Performance is now better than ever – over £1 billion was collected or arranged for nearly 750,000 children – and a continued focus on delivering the commitments of the third year of the plan will ensure a stable foundation, upon which the Commission can build the new system of child maintenance.

## Annex 1

### Performance summary

Performance Measure	Target and Outturn (where applicable)	2004/05	2005/06	2006/07	2007/08	Comment
<b>Maintenance outcome (cases in receipt of maintenance in quarter to 31 March)</b> `Maintenance Direct' or collection service		403,800	454,300	495,100	547,700	Both these figures indicate that the Operational Improvement Plan is delivering performance improvements in key areas making more difference for more children
<b>Number of children benefiting from receipt of maintenance in quarter to 31 March<sup>1</sup></b> `Maintenance Direct' or collection service		561,100	623,000	683,300	749,300	
<b>Monthly current scheme case clearance</b> Average over the period		19,500	27,800	29,700	28,600	
<b>Uncleared applications</b> Measured at 31 March						
Total (rounded) <sup>1</sup>		316,700	285,500	196,600	133,600	
Current Scheme <sup>1</sup>		225,300	220,400	153,300	106,600	
Old Scheme		91,400	65,100	43,300	27,000	
<b>Throughput</b>						
%age of current scheme cases cleared in 12 weeks		30%	53%	61%	77%	Based on December intake
%age of current scheme cases cleared in 18 weeks		37%	61%	64%	83%	Based on October intake
%age of current scheme cases cleared in 26 weeks		46%	67%	78%	88%	Based on September intake
<b>Cases receiving `Child Maintenance Premium'</b>		22,600	43,300	57,200	70,600	

Performance Measure	Target and Outturn (where applicable)	2004/05	2005/06	2006/07	2007/08	Comment
<b>Accuracy</b>  Accuracy on the last action for all assessments checked in the year to be correct to the nearest penny	<b>Old Scheme</b>	78%	84%	83%	93%	The methodology for measuring accuracy has changed. 2007/08 performance cannot be directly compared to previous years.
	<b>Current Scheme</b>	75%	81%	79%	85%	
<b>Debt</b>  To collect arrears equivalent to 30% of the amount accruing due to non-payment of regular maintenance		25%	31%	39%	54%	In 2008/09, the final year of the Operational Improvement Plan, there will be a continued focus on debt owed by non-resident parents.
<b>Debt growth</b>  Average monthly growth over the 12 months		£23 million	£20 million	£16 million	£10 million	The growth of debt followed the previous years' trend and continues to slow.
<b>Telephony</b> average over the year – %age of calls answered from the queue  average answer time from the queue		84%	91%	97%	98%	The improvement in telephony is a result of the Operational Improvement Plan activity to improve client service and experience.
		100 secs	59 secs	26 secs	20 secs	
<b>Complaints</b>  The number of complaints during the year		63,800	62,100	47,900	37,600	

Performance Measure	Target and Outturn (where applicable)	2004/05	2005/06	2006/07	2007/08	Comment
<b>Enforcement<sup>2</sup></b>						
<b>1) Information Offences:</b>						
Prosecutions		241	401	494	679	The focus in the second year of the Operational Improvement Plan on compliance and collection saw an increase in the use and effectiveness of enforcement action.
Guilty verdicts		239	389	481	655	
<b>2) Non payment of maintenance through Wilful Refusal or culpable neglect</b>						
Suspended committal sentences		225	390	420	530	
Committal sentences		5	15	40	35	
Suspended driving licence disqualification sentences		25	35	30	20	
Driving licence disqualification sentences		5	5	5	5	

#### Notes:

1. Figures for 2007 and 2008 accurately reflect clerical and non-clerical cases that are held by the Agency. Other figures include the majority of the cases that have been (or are being) progressed as clerical cases, but only reflect the position at the point the case became clerical.
2. Figures for 2007/08 relate to the period February 2007 to January 2008. Figures to end of March 2008 are not yet available for publication, they will be published in the June 2008 Quarterly Summary of Statistics on the 30 July 2008.

# Administration Account

## Annual Statement of Accounts for the year ended 31 March 2008

### Foreword

#### Statutory background

The Child Support Agency presents its Accounts for the financial year ended 31 March 2008. The Accounts have been prepared in accordance with the direction given by Her Majesty's Treasury in pursuance of Section 7 (2) of the Government Resources and Accounts Act 2000.

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

#### Principal activities

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

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

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

#### Performance targets

The Child Support Agency's performance targets were set out in the 2007/08 Business Plan, which was published in June 2007.

#### Results for the year on an accruals basis

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

The net administration costs amounted to £563 million (2006/07, £520 million). Capital expenditure for the year, full details of which are given in Notes 5 & 6, amounted to £3.34 million (2006/07, £36.3 thousand). The net administration costs have been calculated after including a number of notional costs which are not currently charged to the Child Support Agency but which are borne centrally by the Exchequer, for example, the audit fee (see Note 3).

#### Going concern

The Child Support Agency receives its funding from the Department for Work and Pensions, and as part of the Government's Spending Review 2004 settlement had clear funding amounts through to 2007/08. The Spending Review 2007 settlement was agreed in March 2006 and this provides the funding through to 2010/11.

In common with other parts of the Department for Work and Pensions, the Child Support Agency's Balance Sheet at 31 March 2008 indicates more liabilities than assets. As with other government departments, the Child Support Agency continues to be financed by drawings from the UK Consolidated Fund on an ongoing basis. The application for future financing of the Department for Work and Pensions, of which the Child Support Agency is part, will be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming. It has therefore been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

### **The establishment of the Child Maintenance and Enforcement Commission**

Throughout 2007/08 the Agency continued to support the redesign of the child maintenance system and prepare for the establishment of the Child Maintenance and Enforcement Commission.

In June 2007, the Child Maintenance and Other Payments Bill went before Parliament, proposing a future system that included:

- A new organisation
- Choice for clients
- Tougher enforcement
- Improved debt powers
- A simpler future scheme

Recruitment for senior figures in the Commission began and appointments were made for the Chair Designate (Janet Paraskeva) and Commissioner Designate (Stephen Geraghty). Pending Royal Assent for the Bill, work began on the recruitment to other key senior management roles, to ensure that the Commission's prospective Board members could input into the preparatory work necessary to launch the new organisation.

The passage of this legislation and the creation of the new Commission will be the beginning of a new era for child maintenance.

In the lead up to this reform, the Agency has faced the challenge of continuing to deliver Operational Improvement Plan targets and commitments, while preparing to establish the new organisation into which Agency people and functions will transfer during 2008. Combining his role as Commissioner Designate and Child Support Agency Chief Executive, Stephen Geraghty introduced an interim organisational structure to continue to deliver improvements for all parents using the current schemes while preparing to develop and deliver the future system.

The decision to establish the Commission as a Crown Non-Departmental Public Body, means that all Agency employee terms and conditions are protected on transfer and that Agency colleagues will remain civil servants with secure civil service pensions and with access to DWP vacancies for at least three years. For the majority of people in the Child Support Agency, there will be no significant change when handover to the Commission occurs.

Throughout 2007/08, the Agency continued to deliver improvements under the Operational Improvement Plan. Performance is now better than ever – over £1 billion was collected or arranged for nearly 750,000 children – and a continued focus on delivering the commitments of the third year of the plan will ensure a more stable foundation on which the Commission can build.

## **Parliamentary funding**

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

The Child Support Agency's work programme and expenditure plans are published in the Child Support Agency's Business Plan for 2007/08 and form part of CM 7401: Department for Work and Pensions Departmental Report published in May 2008.

## **Employment of disabled people**

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

## **Commitment to equality and valuing diversity**

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

## **Employee involvement**

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

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

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

## **Pension liabilities**

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

Details of the Pension Scheme are disclosed in Note 2 and the Remuneration Report.

## **Payments to suppliers**

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

A review of all payments made during the year, conducted to measure how promptly the Child Support Agency pays its bills, found that approximately 96 per cent (2006/07, 83 per cent) of bills were paid within this standard.

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

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

In the year to 31 March 2008, £735 (2006/07, £ nil) interest charges have arisen or been paid to suppliers by the Child Support Agency.

### **Public interest**

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

### **External audit**

These Accounts have been audited by the Comptroller and Auditor General whose certificate and report appear on pages 40 and 41.

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

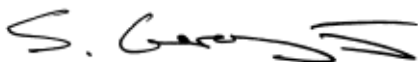
### **Post Balance Sheet events**

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

### **The Euro**

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

Signed



**Stephen Geraghty**

Accounting Officer

15 July 2008

# Administration Account

## Remuneration Report

### Management

#### Appointment and remuneration of the Chief Executive

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

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

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

#### Service contracts

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

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

Further information about the work of the Civil Service Commissioners can be found at [www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk)

#### Remuneration policy

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

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

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

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

Further information about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com)

### **Methods used to assess performance**

There are three stages involved in the assessment of performance:

1. Self assessment
2. Performance review discussion with line manager
3. Pay Committee

How these operate in practice is discussed below.

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

### **Remuneration and pension entitlements**

The following sections provide details of the remuneration and pension entitlements of the most senior officials of the Child Support Agency. These have been subject to audit.

Remuneration	2007/08		2006/07	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
<b>Stephen Geraghty</b> Chief Executive	220-225	–	195-200	–
<b>Mark Grimshaw</b> Director	160-165	–	140-145	–
<b>Alan Hardy</b> Director (from 3 April 2006)	115-120	–	110-115 (110-115 full year equivalent)	–
<b>Susan Park</b> Director (from 3 April 2006)	105-110	–	95-100 (95-100 full year equivalent)	–
<b>Ian Pavey</b> Director (from 8 May 2006)	110-115	–	85-90 (95-100 full year equivalent)	–
<b>Keith Woodhouse</b> Director (from 13 September 2006)	125-130	–	65-70 (115-120 full year equivalent)	–
<b>Hilary Reynolds</b> Deputy Chief Executive (until 4 November 2006)	–	–	60-65 (105-110 full year equivalent)	17
<b>Ron Eagle</b> Director (until 20 September 2006)	–	–	55-60 (105-110 full year equivalent)	–
<b>Jim Edgar</b> Director (until 2 April 2006)	–	–	5-10 (85-90 full year equivalent)	–
<b>Elaine Fox</b> Director (until 7 May 2006)	–	–	15-20 (95-100 full year equivalent)	–

## **Salary**

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

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This presentation is based on payments made by the Department and thus recorded in these accounts.

## **Benefits in kind**

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

## **Non-cash remuneration**

All remuneration of the directors of the Child Support Agency is disclosed within the above table. The Child Support Agency did not make any non-cash awards during 2007/08.

## **Compensation to former senior managers**

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

## **Payments for loss of office**

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

## **Civil Service pensions**

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002, calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).

### **The Cash Equivalent Transfer Value (CETV)**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

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

The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost.

CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

### **Real increase in CETV**

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Pension entitlements	Accrued pension at pension age as at 31 March 2008 and related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31 March 2008 £'000	CETV at 31 March 2007 £'000	Real increase in CETV £'000
<b>Stephen Geraghty</b> <i>Chief Executive</i>	10-15	0-2.5	260	198	29
<b>Mark Grimshaw</b> <i>Director</i>	5-10 plus 20-25 lump sum	0-2.5 plus 2.5-5.0 lump sum	144	104	23
<b>Alan Hardy</b> <i>Director</i> (from 3 April 2006)	0-5	0-2.5	48	20	20
<b>Susan Park</b> <i>Director</i> (from 3 April 2006)	35-40 plus 105-110 lump sum	0-2.5 plus 2.5-5.0 lump sum	601	509	11
<b>Ian Pavey</b> <i>Director</i> (from 8 May 2006)	0-5	0-2.5	52	21	24
<b>Keith Woodhouse</b> <i>Director</i> (from 13 September 2006)	0-5	0-2.5	53	17	30
<b>Hilary Reynolds</b> <i>Deputy Chief Executive</i> (until 4 November 2006)	–	–	–	331	–
<b>Ron Eagle</b> <i>Director</i> (until 20 September 2006)	–	–	–	58	–
<b>Jim Edgar</b> <i>Director</i> (until 2 April 2006)	–	–	–	436	–
<b>Elaine Fox</b> <i>Director</i> (until 7 May 2006)	–	–	–	512	–

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

## Other Board Members


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

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

	2007/08 £'000	2006/07 £'000
Richard Arthur	19	22
Bryan Foss	31	27
Bill Griffiths	23	19
Peter Holden	15	16
Susan Jillings	17	19

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

Signed



**Stephen Geraghty**

Accounting Officer

15 July 2008

# Administration Account

## Statement of Accounting Officer's responsibilities

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

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

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

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

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

The responsibilities of an Accounting Officer, including responsibility for:

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

are set out in 'Managing Public Money', published by Her Majesty's Treasury.

# Administration Account

## Statement on internal control

### 1. Scope of responsibility

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

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

In my Foreword to the Agency's 2007/08 Business Plan, I explained that the year was expected to be one in which the Agency made progress. 2007/08 was the second year of the three-year Operational Improvement Plan. Among other benefits, we anticipated that our Operational Improvement Plan would strengthen the Agency's system of internal control – standardising processes; improving management information; improving IT controls.

I acknowledged that there would remain more to do, but forecast that we would deliver improvements. 2007/08's work has indeed resulted in a stronger Statement on Internal Control than last year, with fewer Significant Control Challenges. This Statement on Internal Control covers the Agency's situation in the round (both Client Funds and Administration, without making a distinction between the two Accounts).

### Background

The Agency works in a problematic environment. 25,000 people apply to us for help every month. All of them come to us at a difficult time of their lives. There are problems in gathering information from clients, tracing non-resident parents, taking account of frequent movements in and out of work; and arranging payments. Over its 15 year life the Agency has collected more than £6 billion maintenance (and arranged further direct maintenance payments above this). But £3.8 billion accumulated arrears remains uncollected from non-resident parents for many reasons.

This inherent challenge is compounded by the need to deliver a policy to which Parliament has approved radical changes (the Child Maintenance & Other Payments Act 2008); maintaining and as far as possible improving performance in supporting a caseload of some 1.4 million live cases; and collecting or arranging more than £1 billion in maintenance.

Our 2007/08 Annual Report explains that the Agency was successful in both improving daily performance (hitting all Secretary of State Targets) and in delivering the second year of the Operational Improvement Plan. In addition, the closing months of the year saw Agency managers start to contribute heavily to the setting up of the Child Maintenance and Enforcement Commission.

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

## **2. The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure, to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Child Support Agency policies, aims and objectives, to evaluate the likelihood of those risks being realised and their potential impact. The system of internal control has been in place in the Child Support Agency for the year ended 31 March 2008, and up to the date of the approval of the Annual Report and Accounts and accords with Her Majesty's Treasury guidance, except for the matters noted below.

## **3. Capacity to handle risk**

After several years of high turnover, the Agency's leadership team enjoyed some stability in 2007/08. The current Executive and Non-Executive Team has a broad range of skills and experience from the public and private sectors.

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

The Agency has a number of tools including a risk management framework, standardised guidance, templates, desk aids and a risk management intranet site. These tools were used to drive up the quality of risk management during the year through a programme of awareness sessions and risk workshops. Evaluation of this activity produced encouraging results. The 2007 HM Treasury Risk Assessment Framework survey (led by the DWP Corporate Risk Team) gave the Agency a score of 20.5 (up from 14 in 2006).

## **4. The risk and control framework**

The Agency works within the Department's risk and control framework and participates fully in its Planning, Performance and Risk Committee, which is responsible for identifying, prioritising and escalating key strategic risks as appropriate.

The Agency has clear risk processes and structures across all levels of the business through a comprehensive set of risk registers and team risk discussions at all key governance and management forums.

At the end of 2007/08, all Executive Team members were required to provide letters of assurance confirming that they had complied with the Departmental and Agency risk procedures. Specific concerns raised have been reflected as appropriate within Section 6 of this statement.

## 5. Review of effectiveness

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

**Agency Board** - This was an advisory board which met eight times in 2007/08, bringing together a number of highly experienced non-executive directors with the Agency's executive directors.

**Executive Team** - In 2007/08 this met on a weekly basis and was the primary decision-making forum for the Agency.

**Programme Board** - This was the main governance body for the Operational Improvement Plan, on which key stakeholders including delivery partners were represented. In 2007/08 it was supported by a programme sub-committee which met on a weekly basis.

**Audit Committee** - In line with HM Treasury guidance, the Audit Committee comprised non-executive board members and provided strong leadership and advice on internal control matters and related assurances during 2007/08. Over the year, the Audit Committee had four full meetings, plus six ad hoc meetings.

**Standards Committee** - This committee was chaired by a non-executive director in 2007/08, and reported to the Audit Committee. It met twice during the year. The Committee examined the Agency's new approach to accuracy checking and quality assurance, which resulted in measurable performance improvement during 2007/08.

**Management Forums** - Meetings were held on a monthly basis for the national lines of business and were used to drive service delivery performance and process compliance.

This structure was underpinned by a comprehensive *Corporate Governance Handbook*, which was available to all Agency employees via the intranet.

There were many assurances available to the Agency in 2007/08 including a comprehensive internal audit programme (which gave the Agency Limited Assurance for the 2007/08 year), the year end audit performed by the National Audit Office, a number of externally commissioned reviews, various internal reviews and assurances including the directors' letters of assurance to the Chief Executive.

## 6. Significant internal control challenges

Significant control challenges identified in the Operational Improvement Plan and the 2007/08 internal audit annual assurance report were information technology, management information, security and Client Funds accounting. Action plans were developed to address each of these.

**Information Technology** - The Agency had experienced major problems with computer systems. These included weaknesses in management information, security and Client Funds accounting (which are covered below). Other issues included:

- General throughput of work - Some 600 manual workarounds still existed and a large number of "stuck" cases were experiencing technical problems;
- Workflow management - The Agency had brought in a Standard Operating Model under its Operational Improvement Plan. The Standard Operating Model required more specialisation in the workforce and consistent practices. This could only be fully achieved through a strong workflow management system which could route cases to the correct caseworker.

A major upgrade to the CS2 system was therefore planned in 2007/08, in order to introduce a new business operating environment. However, as the Go-Live date approached, the Agency Executive Team took the view that the software still needed more testing. The CS2 upgrade was therefore deferred to 2008/09.

**Management Information** - Lack of robust management information had long been an issue for the Child Support Agency. Up until quite recently, managers were reliant on a mixture of inaccurate system-generated management information and fallible clerically generated management information.

In the last couple of years the position steadily improved. However, issues remained, principally over:

- Debt information - For example, the ageing of Debt and the lack of integration of the various Debt balances;
- Complaints information - The RESPOND computer system (which provided information on Complaints) was slow and inflexible.

Both of these issues are expected to be tackled through IT improvements in 2008/09.

**Security** - In the winter of 2007/08 there was growing public and media focus on data security. An internal audit review in the summer of 2007 had pointed out that the Agency needed to raise the security awareness of its people. The Department and the Agency reacted to these drivers by carrying out a complete overhaul of DWP/CSA data security processes. This resulted in better security guidance for Agency managers and employees; a risk assessment of all data transfers; an overhaul of security checking; and stronger security measures being built into the work of contractors providing courier services, IT services, clerical case processing services, etc.

Another issue was that the Agency's computer systems had some weaknesses in management checking and the logging of work done. The CS2 upgrade which is mentioned above should strengthen IT security.

**Client Funds Accounting** - The Agency operates separate general ledgers for each of its two operational systems, CSCS and CS2, and a single bank account, which is reconciled to the ledgers on a daily basis. The current scheme system CS2 lacks sub-ledger functionality and hence case level balances, giving rise to a serious weakness in accounting and control. In last year's Statement on Internal Control we reported that due to technical problems with the system, a large number of outstanding items had built up on the bank reconciliation since CS2 was implemented in 2003. The Agency has now made significant reductions to this backlog and has further initiatives in train to reduce further, but the main issues will be tackled by the system based enhancements in the Business Management System – Relational (BMS-R) release. BMS-R was deferred until 2008/09 for similar reasons to the CS2 upgrade (eg the need for extra testing).

Another issue was that of incorrect calculations in Maintenance Assessments. The Agency made improvements in 2007/08, following the introduction of a new Quality Assurance Framework. (Cash Value Accuracy went up from 92 per cent in 2006/07 to 96.2 per cent in 2007/08.) However, further improvement was required.

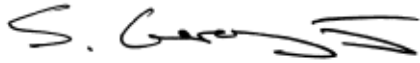
## 7. Conclusion

As I explained in Section 1 above, the Agency is operating in an inherently challenging environment. There is no quick fix possible to remove all problems that have accrued over the last 15 years and it will take time to deliver substantial improvements in the Agency's performance.

However, under the Operational Improvement Plan the Agency has been completely restructuring its operations, in order to increase productivity, performance and control. Real and lasting benefits from this action plan started to come through in 2007/08, and were acknowledged by internal audit and other commentators.

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

Signed



**Stephen Geraghty**

Chief Executive

15 July 2008

# Administration Account

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

I certify that I have audited the financial statements of the Administration Account of the Child Support Agency for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### **Respective responsibilities of the Agency, the Chief Executive and auditor**

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information, which comprises the Management Commentary, Foreword and the unaudited part of the Remuneration Report, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

### **Basis of audit opinions**

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

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

## **Opinions**

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2008, and of the net administration costs, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information, which comprises the Management Commentary, Foreword and the unaudited part of the Remuneration Report, included within the Annual Report, is consistent with the financial statements.

## **Opinion on Regularity**

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

## **Report**

I have no observations to make on these financial statements.

T J Burr  
Comptroller and Auditor General  
National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS

21 July 2008

The maintenance and integrity of the Child Support Agency's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

## Administration Account

### Operating Cost Statement for the year ended 31 March 2008

	Notes	2007/08 £'000	2006/07 (Restated) £'000
<b>Administration costs</b>			
Staff costs	2	271,751	271,215
Non-staff administration costs	3	294,789	251,644
<b>Gross administration costs</b>		<b>566,540</b>	<b>522,859</b>
Administration income	4	(3,339)	(2,525)
<b>Net administration costs</b>		<b>563,201</b>	<b>520,334</b>

All income and expenditure is derived from continuing operations.

## Statement of Recognised Gains and Losses for the year ended 31 March 2008

	Notes	2007/08 £'000	2006/07 £'000
Net gain on revaluation of tangible fixed assets	12	–	21
<b>Recognised gains and losses for the financial year</b>		<b>–</b>	<b>21</b>

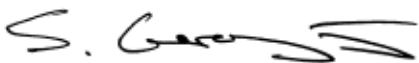
The notes on pages 45 to 68 form part of these Accounts.

## Administration Account Balance Sheet as at 31 March 2008

	Notes	As at 31 March 2008 £'000	As at March 2007 (Restated) £'000
<b>Intangible fixed assets</b>	5	492	–
<b>Tangible fixed assets</b>	6	3,960	3,476
<b>Debtors falling due after one year</b>	7	2,411	2,567
<b>Current assets</b>			
Debtors falling due within one year	7	3,462	4,969
Cash at bank and in hand	8	–	–
		<b>3,462</b>	<b>4,969</b>
<b>Current liabilities</b>			
Creditors falling due within one year	9	(43,731)	(35,804)
<b>Net current liabilities</b>		<b>(40,269)</b>	<b>(30,835)</b>
<b>Total assets less current liabilities</b>		<b>(33,406)</b>	<b>(24,792)</b>
<b>Provisions for liabilities and charges</b>	10	(4,404)	(1,133)
		<b>(37,810)</b>	<b>(25,925)</b>
<b>Financed by</b>			
<b>Taxpayers' Equity</b>			
General Fund	11	(37,854)	(25,980)
Revaluation Reserve	12	44	55
		<b>(37,810)</b>	<b>(25,925)</b>

The notes on pages 45 to 68 form part of these Accounts.

Signed



**Stephen Geraghty**  
Accounting Officer  
15 July 2008

## Administraton Account

### Cash Flow Statement for the year ended 31 March 2008

	Notes	2007/08 £'000	2006/07 £'000
Net Cash Outflow from administration activities	13(i)	(438,815)	(400,328)
Net Cash Outflow from investing activities	13(ii)	(3,343)	(77)
Payments of amounts due to the Consolidated Fund		(1,053)	(9)
Net Financing from Consolidated Fund (supply)	13(iii)	443,211	400,413
<b>Decrease in cash for the year</b>		<b>–</b>	<b>(1)</b>

The notes on pages 45 to 68 form part of these Accounts.

# Administration Account

## Notes to the Accounts for the year ended 31 March 2008

### 1. Statement of accounting policies

The Accounts have been prepared in accordance with the 2007/08 *Government Financial Reporting Manual* issued by Her Majesty's Treasury. The accounting policies contained in the *Government Financial Reporting Manual* follow generally accepted accounting practice for companies in the UK, to the extent that it is meaningful and appropriate in the public sector context.

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

#### 1.1 Accounting convention

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

#### 1.2 Tangible fixed assets

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

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

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

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

During this accounting period, the Department entered into a new contract with a third party (Inchcape) for the provision of fleet management services. This covers running the fleet, fuel costs, maintenance of the fleet and lease of the vehicles. In August 2007, on signing of the contract the Department sold all its vehicles to the new service provider and leased vehicles from them. These vehicles do not belong to the Department and hence are not declared as fixed assets on the Balance Sheet.

With the publication of Treasury's Resource Accounting and Budgeting Implementation Group (RABIG) 32/(2006) letter, which gave Departments' more flexibility in revaluing assets, where the revaluation was proven to be immaterial in comparison to the total asset base or total value of the Balance Sheet. Accordingly, the Department opted to cease revaluing its assets using indices from 1st April 2007. Hence there is no revaluation in this year's financial accounts (See notes 3, 5 & 6).

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

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

### **1.3 Intangible Fixed Assets**

Expenditure on purchased computer software licences covering a period of more than one year are capitalised as intangible fixed assets. Capitalised software licences are amortised over the shorter of the licence period or five years, with amortisation commencing in the month following acquisition. Capitalised software licences are not revalued. Expenditure on annual software licences is charged to the Operating Cost Statement.

### **1.4 Estimation techniques**

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

### **1.5 Land and buildings**

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

The Child Support Agency has accounted for the deferred benefit, which will result from reduced accommodation charges from the NED contract by establishing a prepayment, which is released annually to the Operating Cost Statement on a straight-line basis over the 30-year period of the contract (see Notes 3 and 7).

The Child Support Agency has included on its balance sheet the capital value of Assets Under Construction, which relate to a new building and rectifying structural defects at premises in Falkirk.

### **1.6 Depreciation**

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

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

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

Intangible Fixed Assets, comprising purchased computer software licences, are amortised over the shorter of the licence period or five years. Amortisation commences in the month following acquisition.

## 1.7 Stocks

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

## 1.8 Administration income

Administration income is income which relates directly to the administration activities of the Child Support Agency. It principally comprises fees and charges for services provided on a full cost basis to external clients as well as charges to the Department for Social Development Northern Ireland for IT and Telephony services. It includes both income appropriated-in-aid of the Estimate and income to be surrendered to the Consolidated Fund, which in accordance with the *Government Financial Reporting Manual* is treated as administration income (see Note 4).

## 1.9 Administration expenditure

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

## 1.10 Cost of capital charge

A credit, reflecting the cost of capital utilised by the Child Support Agency, is included in notional costs (see Note 3). The credit is calculated at the real rate set by Her Majesty's Treasury on the average carrying amount of all assets less liabilities, except for the following where the credit is nil:

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

The current real rate is 3.5 per cent (2006/07, 3.5 per cent).

## 1.11 Pensions

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

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

### **1.12 Early departure costs**

The Child Support Agency meets the additional costs of benefits beyond the normal Principal Civil Service Pension Scheme benefits, in respect of employees who retire early, by paying the required amounts annually to the Principal Civil Service Pension Scheme over the period between early departure and normal retirement date. The Child Support Agency provides for this in full when the early retirement programme becomes binding on the Child Support Agency by establishing a provision for the estimated payments, discounted by Her Majesty's Treasury discount rate of 2.2 per cent (2006/07, 2.2 per cent) in real terms.

### **1.13 Provisions**

The Child Support Agency provides for legal or constructive obligations, which are of uncertain timing or amount at the Balance Sheet date, on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk adjusted cash flows are discounted using Her Majesty's Treasury discount rate of 2.2 per cent (2006/07, 2.2 per cent) in real terms.

### **1.14 Contingent liabilities**

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

These comprise:

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

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

### **1.15 Leases**

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

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

### **1.16 Private Finance Initiative (PFI) transactions**

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

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

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

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

### **1.17 Value Added Tax (VAT)**

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

As the Department for Work and Pensions is treated as a single entity for VAT purposes, any VAT balances are shown in the DWP Resource Accounts.

### **1.18 Third-party assets**

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

### **1.19 Northern Ireland Child Support Agency**

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

## 2 Staff numbers and related costs

### (a) Staff costs consist of:

	2007/08 Directly employed people £'000	2007/08 Others £'000	2007/08 Total £'000	2006/07 Total £'000
Wages and salaries	208,437	7,294	215,731	219,898
Employers' National Insurance costs	13,466	94	13,560	14,134
Superannuation and pension costs	42,392	68	42,460	37,183
<b>Total</b>	<b>264,295</b>	<b>7,456</b>	<b>271,751</b>	<b>271,215</b>

The Principal Civil Service Pension Scheme is an unfunded multi-employer defined benefit scheme but the Child Support Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2007/08 normal employers' contributions of £35.5 million (2006/07, restated, £36.2 million) were payable to the Principal Civil Service Pension Scheme at one of four rates in the range 16.2 per cent to 24.6 per cent (2006/07, 16.2 per cent to 24.6 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employers' contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Outstanding contributions amounting to £3.6 million (2006/07, £3.5 million) were payable to the Civil Superannuation Vote at 31 March 2008 and are included in creditors.

Employees joining the Child Support Agency after 1 October 2002 could opt to open a Partnership Pension Account, which is a stakeholder pension with an employers' contribution. Employer's contributions of £105,992 (2006/07, £93,319) were paid to one or more of a panel of four appointed stakeholder pension providers. Employers' contributions are age-related and range from 3 per cent to 12.5 per cent (2006/07, 3 per cent to 12.5 per cent) of pensionable pay. Employers also match employee contributions of up to 3 per cent of pensionable pay. In addition, employers' contributions were paid to the Principal Civil Service Pension Scheme to cover the cost of the future provision of lump sum benefits on death-in-service and ill-health retirement of these employees. Contributions due to the Partnership Pension providers at the Balance Sheet date were £10,179 (2006/07, restated, £7,952). Contributions prepaid at that date were nil.

During the year 8 people (2006/07, 14 people) retired on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £13,254 (2006/07, £17,141).

## b) Average number of people employed

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

	2007/08 Directly employed people	2007/08 Others	2007/08 Total	2006/07 Total
Total	10,353	127	10,480	11,386

### 3 Non-staff administration costs

	Notes	2007/08 £'000	2006/07 (Restated) £'000
Computer systems costs		51,586	34,316
Hire of plant and machinery		139	696
PFI service charges		21,566	18,331
Special Payments	3a/20	5,825	4,931
Accommodation costs		7,025	9,209
Goods and services		56,806	42,411
Refund payments		7,268	5,800
Deferred debt payments		123	441
Bad debts written off	7e	662	1,997
Services provided by Northern Ireland Child Support Agency	3b	28,139	30,176
Depreciation/amortisation of fixed assets	5/6	1,107	4,370
Provisions:			
Doubtful debts movement in year	13	300	(333)
Other Provisions movement in year	10	3,814	327
Unwinding of discount	3c/10	5	11
Cost of capital credit		(944)	(480)
Auditors remuneration and expenses	3d	525	385
IT Service charges		83,456	71,000
Departmental Business Charges			
Costs incurred by the other business units	3d	28,254	28,086
Costs incurred for other business units		(867)	(30)
		<b>294,789</b>	<b>251,644</b>
The above totals are comprised of the following:			
Cash items – directly charged		179,017	148,186
Non-cash items – provided without the transfer of cash:			
Notional - recharged		110,424	98,961
Other		5,348	4,497
Total		115,772	103,458
		<b>294,789</b>	<b>251,644</b>

- a. Figure includes compensation payments £4.407 million (2006/07, £3.317 million), advance payments of maintenance £1.096 million (2006/07, £1.222 million) and interest payable at £322 thousand (2006/07, £392 thousand) which represents payments to clients in lieu of bank interest lost due to late maintenance payments.
- b. Services are provided through a Service Level Agreement by the Northern Ireland Child Support Agency, on behalf of the Child Support Agency. The costs are reimbursed during the course of the year. These costs represent the cost of people and other associated costs.

- c. The unwinding of the discount represents the effect of recalculating the present value of the provision before the impact of the uplift has been taken into account.
- d. Certain services are provided and received by the Child Support Agency without the transfer of cash. Amounts are included in the net cost of operations to reflect these costs and are comprised as follows:
- The auditor's remuneration represents the cost for the audit of the Administration and Client Funds Accounts carried out by the Comptroller and Auditor General. Costs for the Administration Account were £131 thousand (2006/07, £65 thousand) and for the Client Funds Account were £394 thousand (2006/07, £320 thousand).
  - Departmental business charges and costs include corporate recharges for finance, personnel, commercial management, postage and assurance.

The basis of apportionment for recharges of Corporate Centre costs has been updated in 2007/08 following a thorough review, in order to more accurately reflect the level of services/goods received by the Agencies. New bases have been introduced where previous ones have been deemed inappropriate and the most up to date available data has been used.

In order to simplify the complex recharge process, and aid the planning and management of budgets, a monthly apportionment percentage was calculated to recharge Corporate Business Unit costs to the Agencies. This charge will be applied each month and reviewed at quarterly intervals to ensure it fairly reflects the actual costs incurred and to capture any changes to the organisation structures.

## 4 Income and appropriations-in-aid

### Administration income

Administration income not appropriated-in-aid (i.e. transferred to the Consolidated Fund (supply)) is analysed for resource budget purposes between that which is included in public expenditure and that which is not. In 2007/08 all administration income not classified as appropriations-in-aid was included in public expenditure.

	2007/08			2006/07 (Restated)		
	Appropriated -in-aid £'000	Payable to Consolidated Fund £'000	Total £'000	Appropriated -in-aid £'000	Payable to Consolidated Fund £'000	Total £'000
<b>Administration income</b>						
Fees and charges to clients	(218)	–	(218)	(132)	–	(132)
Fees and charges to other government departments	(2,066)	–	(2,066)	(2,383)	–	(2,383)
Amortisation of Government Grant Reserve	–	–	–	(1)	–	(1)
Consolidated Fund Extra Receipts	–	(1,055)	(1,055)	–	(9)	(9)
	<b>(2,284)</b>	<b>(1,055)</b>	<b>(3,339)</b>	<b>(2,516)</b>	<b>(9)</b>	<b>(2,525)</b>

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

	2007/08			2006/07 (Restated)		
	Income £'000	Full cost £'000	Surplus /Deficit £'000	Income £'000	Full cost £'000	Surplus /Deficit £'000
Sundry income	(218)	218	–	(132)	132	–
Income from other government departments	(2,066)	2,066	–	(2,383)	2,383	–
Amortisation of Government Grant Reserve	–	–	–	(1)	1	–
	<b>(2,284)</b>	<b>2,284</b>	<b>–</b>	<b>(2,516)</b>	<b>2,516</b>	<b>–</b>

## 5 Intangible fixed assets

The Agency's intangible fixed assets comprise of purchase software licences.

	£'000
<b>Cost or valuation</b>	
As at 1 April 2007	–
Prior year additions	–
Additions	801
Transfers in	–
Disposals	–
Transfers out	–
Revaluation	–
Impairment	–
Reclassification	–
<b>As at 31 March 2008</b>	<b>801</b>
<b>Amortisation</b>	
As at 1 April 2007	–
Prior year amortisation	–
Charged in year	309
Transfers in	–
Disposals	–
Transfers out	–
Revaluation amortisation	–
Impairment	–
Reclassification	–
<b>As at 31 March 2008</b>	<b>309</b>
<b>Net book value as at 31 March 2008</b>	<b>492</b>
<b>Net book value as at 1 April 2007</b>	<b>–</b>

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

	Notes	2007/08 £'000	2006/07 £'000
Purchases of intangible fixed assets per Cash Flow Statement	13(ii)	801	–

No capital accrual exists at 31 March 2008 (31 March 2007, £ nil).

## 6 Tangible fixed assets

Notes	Computer systems £'000	Plant and machinery £'000	Furniture and fittings £'000	Motor vehicles £'000	Assets under construction £'000 (Note 6e)	Total £'000
<b>Cost or valuation</b>						
As at 1 April 2007	12,503	483	632	1,676	–	15,294
Prior year adjustments	(75)	(14)	(17)	–	–	(106)
Additions 6a	–	–	33	–	2,509	2,542
Transfers in	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Transfers out 6c	(8,969)	(6)	–	(1,676)	–	(10,651)
Revaluation 6b/12	–	–	–	–	–	–
Impairment 6b	–	–	–	–	–	–
Reclassification	–	–	–	–	–	–
<b>As at 31 March 2008</b>	<b>3,459</b>	<b>463</b>	<b>648</b>	<b>–</b>	<b>2,509</b>	<b>7,079</b>
<b>Depreciation</b>						
As at 1 April 2007	10,354	446	268	750	–	11,818
Prior year adjustments	(10)	(5)	(11)	–	–	(26)
Depreciation 6d	640	11	63	84	–	798
Transfers in	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Transfers out 6c	(8,631)	(6)	–	(834)	–	(9,471)
Revaluation depreciation 6b/12	–	–	–	–	–	–
Impairment 6b	–	–	–	–	–	–
Reclassification	–	–	–	–	–	–
<b>As at 31 March 2008</b>	<b>2,353</b>	<b>446</b>	<b>320</b>	<b>–</b>	<b>–</b>	<b>3,119</b>
<b>Net book value as at 31 March 2008</b>	<b>1,106</b>	<b>17</b>	<b>328</b>	<b>–</b>	<b>2,509</b>	<b>3,960</b>
<b>Net book value as at 1 April 2007</b>	<b>2,149</b>	<b>37</b>	<b>364</b>	<b>926</b>	<b>–</b>	<b>3,476</b>

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

- Additions in the year were £2.54 million (2006/07, £36.3 thousand).
- The net increase in asset values arising from the revaluation of fixed assets is £nil (2006/07, £68.4 thousand) and the related backlog depreciation is £nil (2006/07, £47.4 thousand). From 1 April 2007 the Department opted to stop using indices to revalue its fixed assets.

- c. Net transfers out of £1.2 million (2006/07, £554.1 thousand) are to other departmental agencies or core department, on a gross basis, that is, at depreciated replacement cost together with any related balance on the Revaluation Reserve.
- d. Depreciation in the year was £797.8 thousand (2006/07, £4.2 million).
- e. During the year the Agency incurred £2.51 million (2006/07, £ nil) on assets in the course of construction. This expenditure relates to a new building and rectifying structural defects at premises in Falkirk. This work is part of a wider programme which is being managed on the Agency's behalf by Land Securities Trillium. Total expenditure on the programme is estimated at £ 14 million, of which £ 6.4 million is disclosed as a capital commitment (see note 14).
- f. Cash flow reconciliation:

	Notes	2007/08 £'000	2006/07 £'000
Capital creditor and accruals as at 1 April	9	-	41
Capital additions	6a	2,542	36
Purchases of tangible fixed assets per Cash Flow Statement	13(ii)	<b>2,542</b>	<b>77</b>

## 7 Debtors

	Notes	As at 31 March 2008 £'000	As at 31 March 2007 (Restated) £'000
<b>Amounts falling due within one year:</b>			
Deposits and advances	7a	180	132
Accommodation prepayment		122	122
Other prepayments and accrued income		325	358
Intra-Department for Work and Pensions		486	1,652
Other government departments		322	1,222
Trade debtors		7	-
Other debtors		14,952	14,115
Provision for doubtful debts	7d/7e	(12,932)	(12,632)
		<b>3,462</b>	<b>4,969</b>
<b>Amounts falling due after one year:</b>			
Deposits and advances	7b	92	126
Accommodation prepayment	7c	2,319	2,441
		<b>2,411</b>	<b>2,567</b>

- a. Deposits and advances due within one year include £11,123 (2006/07, £17,998) of house purchase advances due from 14 people (2006/07, 24 people).
- b. Deposits and advances due after one year comprise £91,504 (2006/07, £126,218) of house purchase advances due from 12 people (2006/07, 23 people).
- c. The movement in the accommodation prepayment due after one year is due to amortisation.
- d. A provision for bad debts against fees was made in earlier years, in order to allow for the potential non-payment of fees. The movement on the provision and associated debtor account for the year is as follows:

	Debtor £'000	Provision £'000	Net £'000
Balance as at 1 April 2007	12,350	(12,350)	–
Written off in the year	–	–	–
Recovered	–	–	–
Increase in provision	–	–	–
Net movement during the year	–	–	–
<b>Balance as at 31 March 2008</b>	<b>12,350</b>	<b>(12,350)</b>	<b>–</b>

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

	Debtor £'000	Provision £'000	Net £'000
Balance as at 1 April 2007	1,603	(282)	1,321
Adjustment to prior year balances	(132)	–	(132)
Written off in the year	(662)	–	(662)
Recovered	(3,958)	–	(3,958)
Additions	5,501	(300)	5,201
<b>Balance as at 31 March 2008</b>	<b>2,352</b>	<b>(582)</b>	<b>1,770</b>

## Intra-government balances

	Amounts falling due within one year		Amounts falling due after one year	
	As at 31 March 2008 £'000	As at 31 March 2007 (Restated) £'000	As at 31 March 2008 £'000	As at 31 March 2007 (Restated) £'000
Balances with other government departments	322	1,222	–	–
Intra-Department for Work and Pensions balances	486	1,652	–	–
Balances with bodies external to government	2,654	2,095	2,411	2,567
	<b>3,462</b>	<b>4,969</b>	<b>2,411</b>	<b>2,567</b>

## 8 Cash at bank and in hand

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Balance as at 1 April 2007	–	1
Decrease in cash for the year	–	(1)
<b>Balance as at 31 March 2008</b>	<b>–</b>	<b>–</b>

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

## 9 Creditors

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
<b>Amounts falling due within one year:</b>		
Taxation and National Insurance	3,784	4,783
Superannuation	3,628	3,481
Trade creditors	3,407	1,693
Other creditors	17	25
Other government departments	25	20
Accruals and deferred income	32,868	25,802
Intra-Department for Work and Pensions	2	–
	<b>43,731</b>	<b>35,804</b>

### Intra-government balances

#### Amounts falling due within one year

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Balances with other government departments	7,437	8,284
Intra-Department for Work and Pensions balances	2	–
Balances with bodies external to government	36,292	27,520
	<b>43,731</b>	<b>35,804</b>

## 10 Provision for liabilities and charges

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Early departure and pension provision (gross)	758	1,133
Other provisions	3,646	–
<b>Balance as at 31 March 2008</b>	<b>4,404</b>	<b>1,133</b>

### Early departure and pension provision

	Notes	2007/08 Gross provision £'000
Balance as at 1 April 2007		1,133
Amounts utilised in year		(536)
Increase in provisions:		
New entrants	3	127
Movement	3	14
Uplift	3	15
		<b>156</b>
Unwinding of discount	3	5
<b>Balance as at 31 March 2008</b>		<b>758</b>
Payable within one year		351
Payable after one year		407

## Other Provisions

	Notes	Industrial Injuries Benefit Note (a) £'000	2007/08 Parklands Note (b) £'000	Total Other provisions £'000
Balance as at 1 April 2007		–	–	–
Increase in provisions:				
New provision	3	154	3,500	3,654
Uplift	3	4	–	4
Amounts utilised in year		<b>158</b> (12)	<b>3,500</b> –	<b>3,658</b> (12)
<b>Balance as at 31 March 2008</b>		<b>146</b>	<b>3,500</b>	<b>3,646</b>
Payable within one year		11	840	851
Payable after one year		135	2,660	2,795

- a. The provision represents the expected future costs of Industrial Injuries Benefit permanent allowance payments to staff injured at work and unable to perform their job as a result. The amount provided for each individual is based on life expectancy taken from the Interim Life Tables produced by The Government Actuary's Department, and discounted at the HM Treasury discount rate of 2.2 per cent in real terms.
- b. In 1998 the Department (formerly the Department of Social Security) entered into a sale and leaseback agreement with Land Securities Trillium for the Departmental estate. At this date the Department was involved in litigation with the developers and architects for certain structural defects at the Child Support Agency Parklands site in Falkirk. This litigation was successful and resulted in a subsequent out of court settlement being offered to, and accepted by, the Department. Under the terms of the PRIME contract the Department received full consideration for the Parklands site on the understanding that the Department would at some time in the future remedy these defects.

The Department and Land Securities Trillium have agreed the scale and scope of this work which is expected to commence in the 2008/09 financial year. The total expected costs of the remedial work is £3.5 million and this amount has been fully provided at 31 March 2008.

## 11 Reconciliation of net administration costs to movements in General Fund

	Notes	2007/08 £'000	2006/07 (Restated) £'000
Net administration costs		(563,201)	(520,334)
Income not Appropriated in Aid payable to the consolidated fund		(1,055)	(9)
Financing from Consolidated Fund (supply) – current year	13 (iii)	443,211	400,413
Notional charges	3	110,424	98,961
Transfer to General Fund of realised element of Revaluation Reserve	12	11	1
Non-cash capital additions		(1,315)	11
Other		(7)	4
<b>Net movement in General Fund</b>		<b>(11,932)</b>	<b>(20,953)</b>
General Fund as at 1 April 2007		(25,980)	(5,027)
Prior Year adjustment		58	–
<b>General Fund as at 31 March 2008</b>		<b>(37,854)</b>	<b>(25,980)</b>

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

## 12 Reserves

Revaluation Reserve	Notes	2007/08 £'000	2006/07 £'000
Balance as at 1 April 2007		55	35
Arising on revaluation during the year	6	–	21
Transfer to General Fund of realised element of Revaluation Reserve	11	(11)	(1)
<b>Balance as at 31 March 2008</b>		<b>44</b>	<b>55</b>

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

	Notes	2007/08 £'000	2006/07 £'000
<b>Government Grant Reserve</b>			
Balance as at 1 April 2007		–	1
Additions during the year		–	–
Amortisation	4	–	(1)
<b>Balance as at 31 March 2008</b>		<b>–</b>	<b>–</b>

## 13 Cash flow notes

	Notes	2007/08 £'000	2006/07 £'000
<b>(i) Reconciliation of administration costs to operating cash inflow</b>			
Net administration costs		(563,201)	(520,334)
Adjustment for non-cash transactions		115,768	103,457
Decrease in debtors	7	1,663	242
Increase in creditors	9	7,927	16,712
Amortisation of prepayments	3/7	(122)	(122)
Consolidated Fund Extra Receipts		(2)	–
Use of provisions – doubtful debts	7e	(300)	333
Use of provisions – Early Departure	10	(536)	(616)
Use of provisions – Industrial Injuries	10	(12)	–
<b>Net cash outflow from operating activities</b>		<b>(438,815)</b>	<b>(400,328)</b>
<b>(ii) Analysis of capital expenditure and financial investment</b>			
Tangible fixed asset additions	6f	(2,542)	(77)
Intangible fixed asset additions	5	(801)	–
<b>Net cash outflow from investing activities</b>		<b>(3,343)</b>	<b>(77)</b>
<b>(iii) Analysis of financing</b>			
Financing from Consolidated Fund (supply) – current year	11	443,211	400,413
<b>Net financing from Consolidated Fund (supply)</b>		<b>443,211</b>	<b>400,413</b>
<b>(iv) Reconciliation of net cash requirement to change in cash</b>			
Net cash requirement		(443,213)	(400,414)
Financing from Consolidated Fund (supply) – current year		443,211	400,413
Amounts due to the Consolidated Fund received and not paid over		2	–
<b>Decrease in cash for the year</b>		<b>–</b>	<b>(1)</b>

## 14 Capital Commitments

At the 31 March 2008 the Agency had capital commitments of £6.4 million (31 March 2007, £ nil) in relation to building works on the Falkirk Estate.

## 15 Commitments under non-PFI contracts

### Operating leases

The Child Support Agency has entered into operating lease contracts for the provision of photocopiers. At 31 March 2008 the Child Support Agency was committed to making the following payments during the next year, analysed according to the period in which the lease expires:

	31 March 2008 £'000	31 March 2007 £'000
Expiry within one year	81	24
Expiry after one year but not more than five years	158	252
Expiry thereafter	–	–
	<b>239</b>	<b>276</b>

## 16 Commitments under PFI contracts

### Off Balance Sheet

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

## 17 Other financial commitments

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

The TREDSS contract came into effect during 2005/06. The Department for Work and Pensions has determined that TREDSS does not meet the criteria to be disclosed as a PFI contract. Details of other financial commitments under this arrangement are held in the Department for Work and Pensions' Head Office and Corporate and Shared Services Accounts.

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

## 18 Financial instruments

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

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

### a. Liquidity risk

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

### b. Foreign currency risk

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

### c. Interest rate risk

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

### d. Fair values

Fair values of financial assets and liabilities are not significantly different from the book values since, in the calculation of book values, the expected cash flows have been discounted by the real rate set by Her Majesty's Treasury of 2.2 per cent (2006/07, 2.2 per cent).

## 19 Contingent liabilities disclosed under FRS 12

The Child Support Agency operates a discretionary scheme for certain qualifying cases whereby a lump sum payment of arrears is made to a parent with care before that money is collected by the Child Support Agency from the non-resident parent. Entitlement to such a payment is neither automatic nor referred to in legislation. These payments are shown in the Accounts as advance payments of maintenance and in 2007/08 £1.096 million (2006/07, £1.222 million) was charged. At 31 March 2008 a number of cases existed which may subsequently qualify under this scheme, giving rise to a potential liability. The amount of this liability is dependent on a number of factors, the outcome of which for each case is unable to be determined. For this reason no provision has been made in the Accounts. Any future potential liability is mitigated by the fact that this scheme can be withdrawn without notice.

As at 31 March 2008 the Agency had entered into arrangements with external debt collecting organisations, to collect outstanding maintenance on certain client funds accounts. At this date the debt collecting agencies estimate they will collect a further £17.3 million in future years giving rise to a potential commission liability of approximately £2.9 million, if collection of these funds is achieved.

As at 31 March 2008 the Agency had formally contracted with its IT and Telephony suppliers for a number of systems enhancements and new releases. These contracts include milestone and delivery incentives payable if time and quality criteria are met. The maximum value of milestone and delivery incentives payable if all contractual criteria were met after the balance sheet date is £6.481 million.

## 20 Losses and special payments (Administration)

	£'000	2007/08 Number of cases	£'000	2006/07 Number of cases
Losses	734	2,389	2,176	2,306
Special payments	5,966	19,626	5,385	17,202
	<b>6,700</b>	<b>22,015</b>	<b>7,561</b>	<b>19,508</b>

### Losses

Non-salary related losses totalled 2,278 cases amounting to £618,638 (2006/07, 1,900 cases amounting to £2,087,623).

### Details of losses over £250,000

There are no cases over £250,000 (2006/07, nil).

### Special payments

	Notes	2007/08 £'000	Number of Cases	2006/07 £'000	Number of Cases
Compensation payments		4,407	12,827	3,317	13,500
Advance payments of maintenance		1,096	368	1,222	389
Interest		322	1,629	392	1,920
Compensation and advance payments	3	5,825	14,824	4,931	15,809
Other		141	4,802	454	1,393
		<b>5,966</b>	<b>19,626</b>	<b>5,385</b>	<b>17,202</b>

### Details of Special payments over £250,000

There are no individual cases over £250,000 (2006/07, nil).

## 21 Related party transactions

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

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

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

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

## 22 Post Balance Sheet Events

The Child Maintenance and Other Payments Act received Royal Assent on 5 June 2008. This establishes the Child Maintenance and Enforcement Commission as a legal entity, so it can begin developing the functions and services that will deliver the Commission objectives. It is anticipated that the Child Support Agency will transfer to the Commission in October or November 2008. As a result, operational changes will begin to be implemented, with the following changes taking place:

- The Commission will take responsibility for the Child Support Agency's current scheme;
- Child Maintenance Options will be available to all parents nationally;
- Existing Child Support Agency parents with care on benefit will no longer have to use the statutory maintenance service (Currently Child Support Agency);
- The Commission will launch the new £20 disregard across current Child Support Agency schemes to ensure that more of the money paid in child maintenance is retained by lower-income families before it affects their benefits.

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

The authorised date for issue is 21 July 2008

# Client Funds Account

## Annual Statement of Accounts for the year ended 31 March 2008

### Foreword

These Accounts, which are prepared on a cash basis, show a summary of all of the cash received and payments made between non-resident parents, parents with care, the Secretary of State and the Child Support Agency during the financial year ended 31 March 2008. They also record amounts owing by non-resident parents as at 31 March 2008 along with movements in these debt balances during the financial year.

### Principal activities

The Child Support Agency offers two services to our clients': a calculation-only service and a calculation and collection service. Either parent can ask to use the calculation-only service. Where this service has been requested, the client can still ask to use the calculation and collection service at any time. The calculation and collection service applies where either the parent with care is claiming Income Support or income –based Job Seekers Allowance or at the request of either parent.

Under the calculation and collection service offered by the Child Support Agency, we perform maintenance assessments then collect the resulting maintenance due from non-resident parents, taking enforcement action where necessary, and pay the amounts collected to parents with care and the Secretary of State as appropriate. The resulting flows of funds are included in these Accounts.

The calculation only service offered by the Child Support Agency is concerned with the setting up of arrangements between non-resident parents and parents with care in which case the resulting flow of funds is direct from the non-resident parent to the parent with care. The Child Support Agency refers to such arrangements as maintenance direct and the resulting funds flows are not included in these Accounts.

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

### Third party assets

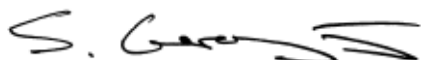
The Child Support Agency aims to pay out all maintenance monies collected as soon as possible. In practice these take a number of days to clear through the banking system and there is also an amount of work in progress whilst individual receipts are assigned to the correct cases and processed through our systems. Hence, at any point in time an in hand balance is held in the account on behalf of parents with care and the Secretary of State. At 31 March 2008 the amount held in this account for this purpose was £18 million.

We also record amounts owed by non-resident parents and account for these as debt balances in the Client Funds Account. These represent amounts assessed but not collected which have accumulated over the fifteen year life of the Child Support Agency together with a small amount of ongoing maintenance where the due date has yet to be reached. We do not have the power to write off this debt, the value of which had grown to £3,806 million by 31 March 2008. Taking into account the age of the debt, limitations on our powers to enforce it, accumulated errors and inaccuracies in many of the individual balances, difficulties in tracing some non-resident parents and their inability to pay in many cases, £1,518 million of the total balance is estimated potentially to be collectable as at 31 March 2008. The debt balance recorded in these Accounts has continued to increase but the rate of increase is now reducing. In 2007/08 the increase was £10 million per month which represents a 38 per cent reduction in the rate of increase when compared to the prior year.

## Results for the year on a cash basis

Receipts and payments increased by over 10 per cent in 2007/08 compared to the previous year. The total amount received in 2007/08 amounted to £691 million (2006/07, £623 million) and payments were £687 million (2006/07, £622 million). These amounts are primarily collections of child maintenance and the subsequent payments, but they also include small amounts for other related items. From the inception of the Child Support Agency in 1993 up to 31 March 2008 we have collected a total of some £6,259 million in maintenance, approximately 62 per cent of the accumulated amounts charged.

Signed



**Stephen Geraghty**

Accounting Officer

15 July 2008

## Client Funds Account

### Statement of Accounting Officer's responsibilities

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

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

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

# Client Funds Account

## Statement on internal control

### 1. Scope of responsibility

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

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

In my Foreword to the Agency's 2007/08 Business Plan, I explained that the year was expected to be one in which the Agency made progress. 2007/08 was the second year of the three-year Operational Improvement Plan. Among other benefits, we anticipated that our Operational Improvement Plan would strengthen the Agency's system of internal control – standardising processes; improving management information; improving IT controls.

I acknowledged that there would remain more to do, but forecast that we would deliver improvements. 2007/08's work has indeed resulted in a stronger Statement on Internal Control than last year, with fewer Significant Control Challenges. This Statement on Internal Control covers the Agency's situation in the round (both Client Funds and Administration, without making a distinction between the two Accounts).

### Background

The Agency works in a problematic environment. 25,000 people apply to us for help every month. All of them come to us at a difficult time of their lives. There are problems in gathering information from clients, tracing non-resident parents, taking account of frequent movements in and out of work; and arranging payments. Over its 15 year life the Agency has collected more than £6 billion maintenance (and arranged further direct maintenance payments above this). But £3.8 billion accumulated arrears remains uncollected from non-resident parents for many reasons.

This inherent challenge is compounded by the need to deliver a policy to which Parliament has approved radical changes (the Child Maintenance & Other Payments Act 2008); maintaining and as far as possible improving performance in supporting a caseload of some 1.4 million live cases; and collecting or arranging more than £1 billion in maintenance.

Our 2007/08 Annual Report explains that the Agency was successful in both improving daily performance (hitting all Secretary of State Targets) and in delivering the second year of the Operational Improvement Plan. In addition, the closing months of the year saw Agency managers start to contribute heavily to the setting up of the Child Maintenance and Enforcement Commission.

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

## **2. The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure, to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Child Support Agency policies, aims and objectives, to evaluate the likelihood of those risks being realised and their potential impact. The system of internal control has been in place in the Child Support Agency for the year ended 31 March 2008, and up to the date of the approval of the Annual Report and Accounts and accords with Her Majesty's Treasury guidance, except for the matters noted below.

## **3. Capacity to handle risk**

After several years of high turnover, the Agency's leadership team enjoyed some stability in 2007/08. The current Executive and Non-Executive Team has a broad range of skills and experience from the public and private sectors.

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

The Agency has a number of tools including a risk management framework, standardised guidance, templates, desk aids and a risk management intranet site. These tools were used to drive up the quality of risk management during the year through a programme of awareness sessions and risk workshops. Evaluation of this activity produced encouraging results. The 2007 HM Treasury Risk Assessment Framework survey (led by the DWP Corporate Risk Team) gave the Agency a score of 20.5 (up from 14 in 2006).

## **4. The risk and control framework**

The Agency works within the Department's risk and control framework and participates fully in its Planning, Performance and Risk Committee, which is responsible for identifying, prioritising and escalating key strategic risks as appropriate.

The Agency has clear risk processes and structures across all levels of the business through a comprehensive set of risk registers and team risk discussions at all key governance and management forums.

At the end of 2007/08, all Executive Team members were required to provide letters of assurance confirming that they had complied with the Departmental and Agency risk procedures. Specific concerns raised have been reflected as appropriate within Section 6 of this statement.

## 5. Review of effectiveness

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

**Agency Board** – This was an advisory board which met eight times in 2007/08, bringing together a number of highly experienced non-executive directors with the Agency's executive directors.

**Executive Team** – In 2007/08 this met on a weekly basis and was the primary decision-making forum for the Agency.

**Programme Board** – This was the main governance body for the Operational Improvement Plan, on which key stakeholders including delivery partners were represented. In 2007/08 it was supported by a programme sub-committee which met on a weekly basis.

**Audit Committee** – In line with HM Treasury guidance, the Audit Committee comprised non-executive board members and provided strong leadership and advice on internal control matters and related assurances during 2007/08. Over the year, the Audit Committee had four full meetings, plus six ad hoc meetings.

**Standards Committee** – This committee was chaired by a non-executive director in 2007/08, and reported to the Audit Committee. It met twice during the year. The Committee examined the Agency's new approach to accuracy checking and quality assurance, which resulted in measurable performance improvement during 2007/08.

**Management Forums** – Meetings were held on a monthly basis for the national lines of business and were used to drive service delivery performance and process compliance.

This structure was underpinned by a comprehensive *Corporate Governance Handbook*, which was available to all Agency employees via the intranet.

There were many assurances available to the Agency in 2007/08 including a comprehensive internal audit programme (which gave the Agency Limited Assurance for the 2007/08 year), the year end audit performed by the National Audit Office, a number of externally commissioned reviews, and various internal reviews and assurances including the directors' letters of assurance to the Chief Executive.

## 6. Significant internal control challenges

Significant control challenges identified in the Operational Improvement Plan and the 2007/08 internal audit annual assurance report were information technology, management information, security and Client Fund accounting. Action plans were developed to address each of these.

**Information Technology** – The Agency had experienced major problems with computer systems. These included weaknesses in management information, security and Client Funds accounting (which are covered below). Other issues included:

- General throughput of work – Some 600 manual workarounds still existed and a large number of “stuck” cases were experiencing technical problems;
- Workflow management – The Agency had brought in a Standard Operating Model under its Operational Improvement Plan. The Standard Operating Model required more specialisation in the workforce and consistent practices. This could only be fully achieved through a strong workflow management system which could route cases to the correct caseworker.

A major upgrade to the CS2 system was therefore planned in 2007/08, in order to introduce a new business operating environment. However, as the Go-Live date approached, the Agency Executive Team took the view that the software still needed more testing. The CS2 upgrade was therefore deferred to 2008/09.

**Management Information** – Lack of robust management information had long been an issue for the Child Support Agency. Up until quite recently, managers were reliant on a mixture of inaccurate system-generated management information and fallible clerically generated management information.

In the last couple of years the position steadily improved. However, issues remained, principally over:

- Debt information – For example, the ageing of Debt and the lack of integration of the various Debt balances;
- Complaints information – The RESPOND computer system (which provided information on Complaints) was slow and inflexible.

Both of these issues are expected to be tackled through IT improvements in 2008/09.

**Security** – In the winter of 2007/08 there was growing public and media focus on data security. An internal audit review in the summer of 2007 had pointed out that the Agency needed to raise the security awareness of its people. The Department and the Agency reacted to these drivers by carrying out a complete overhaul of DWP/CSA data security processes. This resulted in better security guidance for Agency managers and employees; a risk assessment of all data transfers; an overhaul of security checking; and stronger security measures being built into the work of contractors providing courier services, IT services, clerical case processing services, etc.

Another issue was that the Agency’s computer systems had some weaknesses in management checking and the logging of work done. The CS2 upgrade which is mentioned above should strengthen IT security.

**Client Funds Accounting** – The Agency operates separate general ledgers for each of its two operational systems, CSCS and CS2, and a single bank account, which is reconciled to the ledgers on a daily basis. The current scheme system CS2 lacks sub-ledger functionality and hence case level balances, giving rise to a serious weakness in accounting and control. In last year’s Statement on Internal Control we reported that due to technical problems with the system, a large number of outstanding items had built up on the bank reconciliation since CS2 was implemented in 2003. The Agency has now made significant reductions to this backlog and has further initiatives in train to reduce further, but the main issues will be tackled by the system based enhancements in the Business Management System – Relational (BMS-R) release. BMS-R was deferred until 2008/09 for similar reasons to the CS2 upgrade (eg the need for extra testing).

Another issue was that of incorrect calculations in Maintenance Assessments. The Agency made improvements in 2007/08, following the introduction of a new Quality Assurance Framework. (Cash Value Accuracy went up from 92 per cent in 2006/07 to 96.2 per cent in 2007/08.) However, further improvement was required.

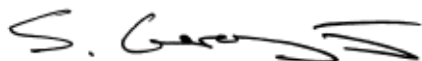
## 7. Conclusion

As I explained in Section 1 above, the Agency is operating in an inherently challenging environment. There is no quick fix possible to remove all problems that have accrued over the last 15 years and it will take time to deliver substantial improvements in the Agency's performance.

However, under the Operational Improvement Plan the Agency has been completely restructuring its operations, in order to increase productivity, performance and control. Real and lasting benefits from this action plan started to come through in 2007/08, and were acknowledged by internal audit and other commentators.

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

Signed

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

**Stephen Geraghty**

Chief Executive

15 July 2008

## Client Funds Account

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

I certify that I have audited the Client Funds Account of the Child Support Agency for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. This comprises the Receipts and Payments Statement, Statement of Balances and notes relating to receipts and payments and the debt position. This account has been prepared on a cash basis in the form directed by H M Treasury, with the exception of Note 6, detailing the debt position, which has been prepared on an accruals basis.

#### Respective responsibilities of the Agency, the Chief Executive and Auditor

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

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

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

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed. I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance and I report if it does not. I am not required to consider whether this statement covers all risks and controls or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

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

## Basis of audit opinion

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

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

## Qualified opinions arising from errors in maintenance assessments

As explained in paragraphs 8 to 15 of my report, my audit found that certain receipts from non-resident parents (and the subsequent payments over to the parent with care or Secretary of State) were for wrong amounts because of errors in the underlying maintenance assessments. I estimate that receipts from non-resident parents included in the Client Funds Account as £691 million are misstated due to overpayments which could amount to £21.9 million and underpayments of around £15.5 million.

Also, as explained in paragraphs 16 to 19 of my report, my audit found that amounts due at 31 March 2008 from non-resident parents in respect of maintenance assessments, as reported in Note 6 to the accounts, were misstated mainly because of combinations of errors made in earlier years and in 2007-08. Whilst I am not able to provide a precise estimate of the level of error, the level of gross error is material and is in excess of £80 million. In addition, as explained in paragraph 20 of my report, the Agency's assessment of the collectability of debt, whilst based on a systematic sampling exercise, is subject to significant uncertainty.

## Opinions

In my opinion:

- the Child Support Agency's Client Funds Receipts and Payments Account properly presents the receipts and payments for the year ended 31 March 2008 and the statement of balances as at the 31 March 2008;
- except for the adjustments required in respect of errors in the underlying maintenance assessments and uncertainty surrounding the accuracy of estimates for non-collectability of debt, Note 6 to these accounts gives a true and fair view of the debt outstanding as at 31 March 2008;
- the account has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder; and
- information given within the Foreword is consistent with the financial statements.

## Opinion on Regularity

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

Further details of these matters are set out in my report.

### **T J Burr**

Comptroller and Auditor General  
National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS  
21 July 2008

The maintenance and integrity of the Child Support Agency's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

## Client Funds Account

### Receipts and Payments Statement for the year ended 31 March 2008

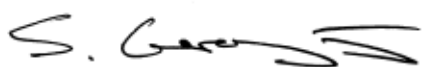
	Notes	2007/08 £'000	2006/07 £'000
Receipts	2	689,538	621,979
Bank interest	3	1,068	812
<b>Total receipts</b>		<b>690,606</b>	<b>622,791</b>
Less payments to:			
Parents with care	2	575,701	521,207
Secretary of State	2	105,084	93,391
Non-resident parents/employers	2	6,175	7,266
Child Support Agency fees and Court fees	2	198	2
<b>Total payments</b>		<b>687,158</b>	<b>621,866</b>
<b>Net receipts</b>		<b>3,448</b>	<b>925</b>
<b>Balance as at 1 April 2007</b>		<b>15,080</b>	<b>14,155</b>
<b>Balance as at 31 March 2008</b>		<b>18,528</b>	<b>15,080</b>

### Statement of Balances as at 31 March 2008

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Funds awaiting clearance	10,499	8,179
Cleared funds awaiting distribution	8,029	6,901
<b>Balance on bank account</b>	<b>18,528</b>	<b>15,080</b>

The Notes on pages 81 to 87 form part of these Accounts.

Signed



**Stephen Geraghty**  
Accounting Officer  
15 July 2008

# Client Funds Account

## Notes to the Accounts for the year ended 31 March 2008

### 1 Statement of accounting policies

The Accounts have been prepared on a cash basis and in the form directed by Her Majesty's Treasury. The debt note also records amounts owing by non-resident parents as at 31 March 2008, along with movements in these debt balances during the financial year.

#### 1.1 Accounting convention

The Accounts have been prepared under the historical cost convention.

#### 1.2 Estimation techniques

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

### In relation to the Receipts and Payments Statement

#### 2 Receipts and payments

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

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

**2.3** Monies are also received from the Secretary of State to refund non-resident parents in cases where an overpayment has been made and the amount is irrecoverable. This totalled £7,268 thousand (2006/07, £5,800 thousand) and is disclosed in Note 3 of the Administration Account.

**2.4** Included in the £575,701 thousand (2006/07, £521,207 thousand) paid to the parents with care is £734 thousand (2006/07, £982 thousand) paid to the Northern Ireland Child Support Agency to fund payments made on our behalf.

#### 3 Interest received and paid

The Child Support Agency receives interest on balances deposited in the Client Fund's bank account. Parents with care may, in specific circumstances, be entitled to receive interest payments. Of the £1,068 thousand (2006/07, £812 thousand) interest received, £134 thousand (2006/07, £82 thousand) was paid to parents with care. The balance of £934 thousand (2006/07, £730 thousand) was paid to the Secretary of State.

#### 4 Balances on the bank account

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

## In relation to the third party debt position

### 5 Amounts outstanding as at 31 March 2008

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

**5.2** There are four types of maintenance assessment:

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

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

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

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

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

#### 5.7 Collectability of amounts outstanding

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

#### **Collectable**

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

### Possibly uncollectable

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

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

### Probably uncollectable

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

The probably uncollectable amounts are classified as wholly uncollectable.

An analysis of collectable debt balances is shown below

		Old Scheme		Current Scheme		Total	
		31 March 2008	31 March 2007	31 March 2008	31 March 2007	31 March 2008	31 March 2007
		£'000	£'000	£'000	£'000	£'000	£'000
Collectable	Value of debt	664,600	577,836	215,423	146,942	880,023	724,778
	Percentage of debt	60.53%	49.00%	51.27%	50.55%	57.96%	49.31%
Possibly uncollectable	Value of debt	433,406	575,554	204,936	143,763	638,342	719,317
	Percentage of debt	39.47%	48.80%	48.73%	49.45%	42.04%	48.93%
Deferred debt	Value of debt	–	25,885	–	–	–	25,885
	Percentage of debt	–	2.20%	–	–	–	1.76%
<b>Total Net Debt</b>		<b>1,098,006</b>	<b>1,179,275</b>	<b>420,359</b>	<b>290,705</b>	<b>1,518,365</b>	<b>1,469,980</b>

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

## 6.0 Debt Balances as at 31 March 2008

Notes	Maintenance Calculation / Full Maintenance Assessments			Default Maintenance Decision / Interim Maintenance Assessments			Consolidated Debt Position		
	New Scheme	Old Scheme	Total	New Scheme	Old Scheme	Total	New Scheme	Old Scheme	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Opening gross debt balances on:									
Legacy system	–	1,409,966	1,409,966	–	808,440	808,440	–	2,218,406	2,218,406
New system	357,043	684,662	1,041,705	31,290	394,858	426,148	388,333	1,079,520	1,467,853
<b>Balance as at 1 April 2007</b>	<b>357,043</b>	<b>2,094,628</b>	<b>2,451,671</b>	<b>31,290</b>	<b>1,203,298</b>	<b>1,234,588</b>	<b>388,333</b>	<b>3,297,926</b>	<b>3,686,259</b>
<b>Maintenance charged in year:</b>									
Legacy system (i)	–	202,509	202,509	–	(77,075)	(77,075)	–	125,434	125,434
New system (i)	453,156	178,270	631,426	17,277	24,692	41,969	470,433	202,962	673,395
<b>Total Amounts Due</b>	<b>810,199</b>	<b>2,475,407</b>	<b>3,285,606</b>	<b>48,567</b>	<b>1,150,915</b>	<b>1,199,482</b>	<b>858,766</b>	<b>3,626,322</b>	<b>4,485,088</b>
<b>Less Maintenance Received in year:</b>									
Legacy system (ii)	–	(261,721)	(261,721)	–	(4,752)	(4,752)	–	(266,473)	(266,473)
New system (ii)	(309,082)	(98,803)	(407,885)	(2,001)	(2,235)	(4,236)	(311,083)	(101,038)	(412,121)
Agency payments of deferred debt (ii)	–	(52)	(52)	–	–	–	–	(52)	(52)
<b>Gross Debt as at 31 March 2008 (iii)</b>	<b>501,117</b>	<b>2,114,831</b>	<b>2,615,948</b>	<b>46,566</b>	<b>1,143,928</b>	<b>1,190,494</b>	<b>547,683</b>	<b>3,258,759</b>	<b>3,806,44</b>
<b>Collectability Assessment</b>									
Uncollectable IMA (iv)	–	–	–	–	835,067	835,067	–	835,067	835,067
Possibly Uncollectable (iv)	21,542	65,193	86,735	3,106	–	3,106	24,648	65,193	89,840
Probably Uncollectable (iv)	96,087	1,260,493	1,356,580	6,590	–	6,590	102,677	1,260,493	1,363,170
Collectable (v)	383,488	789,145	1,172,633	36,870	308,861	345,731	420,358	1,098,006	1,518,365
<b>Gross Debt as at 31 March 2008 (iii)</b>	<b>501,117</b>	<b>2,114,831</b>	<b>2,615,948</b>	<b>46,566</b>	<b>1,143,928</b>	<b>1,190,494</b>	<b>547,683</b>	<b>3,258,759</b>	<b>3,806,442</b>

## 6.1 Debt Balances as at 31 March 2007

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

**6.2** The following notes explain the movement from the opening gross debt balance to the closing balance assessed as collectable.

**i) Maintenance charged during the year**

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

**ii) Maintenance received during the year**

This comprises amounts received from non-resident parents and the Child Support Agency during the year. From April 1995 we have been able to defer some debt indefinitely, provided that non-resident parents meet certain conditions on payment of both regular maintenance and the remaining debt outstanding. In these cases, we can settle the deferred debts to the parents with care from monies provided by the Secretary of State and assume responsibility for the remaining debts. During 2007/08 we paid £0.052 million (2006/07, £0.233 million) under this category. The total of receipts received is £687 million (2006/07, £607 million).

**iii) Gross debt as at 31 March 2008**

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

**iv) Assessments of Collectability**

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

An analysis of movement in collectability assessments is shown below.

Collectability Assessment	Amount as at 31 March 2008		Amount as at 31 March 2007		Movement during 2007/08	
	Current Scheme	Old Scheme	Current Scheme	Old Scheme	Current Scheme	Old Scheme
	£'000	£'000	£'000	£'000	£'000	£'000
Revaluation of interim maintenance assessments	–	(835,067)	–	(878,408)	–	43,341
Assessment of possibly uncollectable debt	(24,648)	(65,193)	(19,328)	(89,564)	(5,320)	24,371
Assessment of probably uncollectable debt	(102,677)	(1,260,493)	(78,302)	(1,150,678)	(24,375)	(109,815)

#### v) Debt assessed as collectable at 31 March 2008

The debt balance assessed as collectable is the position as at 31 March 2008 and is after an assessment of the collectability of the debt due from non-resident parents via the Child Support Agency to both parents with care and the Secretary of State.

The debt so classified is excluded from the year end collectable debt balance, but the individual debt balances which comprise this balance continue to be due in full from non-resident parents.

# Client Funds Account Report by the Comptroller and Auditor General

## Introduction

1. The Child Support Agency is required by a Treasury Direction to prepare a Client Funds Account, which reports the receipts of child maintenance from non-resident parents and payments to parents with care and to the Secretary of State. The Direction also requires the Child Support Agency to provide information on the level of debt outstanding and its assessment of how much of this debt is considered to be collectable. The administrative costs of the Child Support Agency are reported within a separate account, of which I am also the statutory auditor.

## Audit Opinion

2. Under the Government Resources and Accounts Act 2000, I am required to give an opinion on whether, in all material respects:

- the Child Support Agency's Client Funds Receipts and Payments Account properly presents the receipts and payments for the year ended 31 March 2008;
- Note 6 to these accounts presents a true and fair view of the debt outstanding as at 31 March 2008;
- the account has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder; and
- the financial transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them, the "regularity" opinion.

3. Whilst the accounts properly present the amounts paid and received, I have qualified my opinion on these accounts on the grounds that there have been material errors in the calculation of maintenance assessments, which are therefore not in accordance with the legislation which prescribes the basis for these calculations. As a result, a proportion of receipts have been based on the wrong assessment and associated payments to parents with care or the Secretary of State have also been made at the wrong rate. In respect of these assessments, where insufficient payment has been received, the debt balances reported in Note 6 to the accounts have also been accumulating at the wrong rate. This qualification of my opinion is therefore in respect of both the receipts and payments account and the debt balances reported in Note 6 to the accounts. In addition, I have qualified my opinion on the truth and fairness of the debt figure reported in Note 6 to the accounts because the level of error in the balances is material and the note does not therefore accurately reflect the amounts due.

4. This report provides further details of the basis for the qualifications of my opinion and a summary of the significant matters arising from my examination of the 2007-08 Client Funds Account. I also provide an update on the progress made by the Child Support Agency in addressing the deep-seated problems which have led me to qualify my opinion on these accounts for the previous 13 years.

## Background

5. The Child Support Agency is an executive agency of the Department for Work and Pensions. It was established in 1993 and its main purpose is to ensure that non-resident parents meet their financial responsibilities towards their children. As part of this process, the Child Support Agency:

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

The Child Support Agency administers maintenance assessments under rules set out within legislation and has no power to vary the basis for calculation of assessments.

6. Because of concerns about the quality of service being provided by the Agency and the levels of errors in maintenance assessments, the Child Support Reforms (the Reforms) were launched in March 2003 and were formally closed in October 2005. In my predecessor's report *Child Support Agency – Implementation of the Child Support Reforms* (HC1174; 2005-06), he explained how and where this initiative failed.

7. Following a review of the child maintenance system by Sir David Henshaw, in July 2006 the Government announced its plans to establish a new organisation to deliver child support, the Child Maintenance and Enforcement Commission. In June 2008, the Child Maintenance and Other Payments Act received Royal Assent, and the Commission will become fully operational later this year.

## Receipts and Payments

8. In 2007-08, the Child Support Agency received £689.5 million (2006-07: £622.0 million) from non-resident parents and made payments of £575.7 million (2006-07: £521.2 million) to parents with care. In addition, £105.1 million (2006-07: £93.4 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.

9. Non-resident parents are required to make payments to the Child Support Agency based on assessments of maintenance which are calculated in accordance with rules laid down in legislation. These rules also determine the date from which assessments are payable. Following the initial assessment of maintenance payable, assessments are revisited whenever the Child Support Agency is notified of any changes in circumstances which would affect the amounts payable. The Agency is currently required to carry out these calculations according to two distinct sets of rules: the "new rules" apply to cases received after the Child Support Reforms were introduced in March 2003; the "old rules" apply to cases predating the Reforms. The Child Support Agency has no authority to exercise any latitude in making these assessments.

10. Maintenance received from non-resident parents is paid over to either the parent with care or the Secretary of State. All amounts are paid out in their entirety and, if an error is made in the initial assessment or any subsequent assessment, it will therefore have an impact on the correctness of both the receipt and the related payment out.

11. The Child Support Agency carries out an extensive exercise to assess the accuracy of the maintenance decisions made each year and this exercise covers new cases and cases where there has been a recalculation of maintenance due to changes in circumstances. Figure 1 shows the percentage of cases which were found to be accurately calculated.

**Figure 1: Percentage of cases with accurate maintenance assessments: 2004-05 to 2007-08**

2007-2008		2006-2007		2005-2006		2004-2005	
New Rules	Old Rules	New Rules	Old Rules	New Rules	Old Rules	New Rules	Old Rules
85%	94%	79%	83%	81%	84%	75%	78%

Source: The Child Support Agency.

12. As demonstrated in Figure 1, there has been significant improvement in the accuracy of assessments over recent years but most notably between 2006-07 and 2007-08. The Child Support Agency estimates that around 1 per cent to 2 per cent of the improvement reported in the 2007-08 performance is attributable to a change in the methodology used to assess accuracy for missing case files but, even if the figures were adjusted to take account of this change, there has been significant reported improvement.

13. The Agency's Operational Improvement Programme, launched in February 2006, led to a restructuring of the organisation into more specialised lines of business. In addition, the Child Support Agency improved the guidance provided to case-workers and increased its spending on training. There was also increased focus by management on the importance of accuracy and the Operational Improvement Programme led to improved performance on accuracy being reported in the latter part of 2006-07 which, based on the results reported in Figure 1 above, has been maintained during 2007-08.

14. The figures above relate to the accuracy of new maintenance assessments and reassessments of existing maintenance cases undertaken by the Child Support Agency during 2007-08. Receipts and payments reported in the accounts are based on assessments made during this period and in earlier years. Therefore the improved accuracy of current work by the Child Support Agency will take a number of years to be reflected in the whole caseload being managed by the Child Support Agency.

15. My opinion on the accounts is based mainly on the value of error, rather than the incidence. Whilst the accounts properly present the amounts paid and received, testing carried out by my staff, and by the Child Support Agency's own Quality Assurance Team, indicated that there was material error in the value of maintenance assessments underlying the receipts and payments in year. Furthermore, there were inconsistencies in the benefit status of some parents with care, which would have an impact on whether the parent with care or the Secretary of State should receive the funds. My staff found errors in payments both to the Secretary of State and to the parent with care and, although it is unlikely that the accounts are materially misstated in this respect, these anomalies will require further investigation by the Agency. The best available estimates of the financial value of errors in maintenance assessments are £ 21.9 million overstatement (3.2 per cent of receipts) and £15.5 million (2.2 per cent of receipts) understatement (2006-07: £22.9 million overstatement (3.7 per cent) and £14.9 million understatement (2.4 per cent)). I have therefore continued to qualify my regularity opinion on the Receipts and payments Account on the basis of the value of error in the assessments.

## Amounts owed at 31 March 2008

16. Where a non-resident parent does not make payments in accordance with the maintenance assessment, and the Child Support Agency is responsible for collecting the monies, any shortfall is included in the debt figures reported by the Child Support Agency in Note 6 to the Accounts. Under the provisions of current legislation, the Child Support Agency is not permitted to write off debt. As a result, the debt outstanding has accumulated over the period since the establishment of the Child Support Agency in 1993. In Note 6, the Child Support Agency reports outstanding debt, as at 31 March 2008, of £3,806 million (2006-07: £3,686 million).

17. In line with the accounts direction issued by HM Treasury, Note 6 also provides an analysis of the Child Support Agency's assessment of the collectability of this debt. Note 6 reports that the Child Support Agency's current assessment is that only £1,518 million (39.9 per cent) is likely to be collectable (2006-07: £1470 million; 39.9 per cent)

18. Debtor balances comprise over 1 million individual cases of debt, some of which date back to the inception of the Child Support Agency. My staff's audit of debt balances and maintenance assessments over the years, together with the Child Support Agency's own work, has identified errors in a significant number of debt balances, due largely to errors in the maintenance calculations, as described at paragraph 7 above, but also due to errors in records caused by software problems.

19. The scale of debt, both in terms of numbers of cases and value, and the age of much of the debt means that considerable work would be required to enable me to provide a reliable estimate of the total level of error and further work to refine my estimates would not be cost effective. The testing carried out by my staff indicates that the total value of error is in excess of £80 million (2006-07: £80 million) and that the error in the debt reported in Note 6 to the accounts, including both overpayments and underpayments, is material. I have therefore qualified my opinion on the Accounts in respect of these amounts.

20. The Child Support Agency carried out an extensive exercise on a sample of debt balances to assess their recoverability to inform the analysis of collectability required by the accounts direction. The large number of individual balances which make up the debt figure, and the age of some of the balances, means that this analysis is necessarily the Child Support Agency's best estimate and subject to considerable uncertainty.

## Accounting Systems

21. As noted in the Statement on Internal Control, the Child Support Agency has, since its inception, experienced problems with the accounting information generated by both the Child Support Computer System (CSCS), which records the 'old rules' cases, and CS2 (the new IT system introduced to process applications from 2003) which records the 'new rules' cases.

22. The IT systems were originally designed to provide a database through which to manage casework and to generate the information needed to prepare the accounts. Due to weaknesses, primarily in the CS2 system, the Child Support Agency is unable to produce its Receipts and Payments Account using the financial data held in the two systems. Instead, the Child Support Agency maintains supplementary records, outside the main accounting systems, which provide the necessary information for preparation of the accounts. The Child Support Agency has developed a suite of workarounds which necessitate significant adjustments to the ledgers to align them with the cash received and expended. An increasing number of cases, although still a small proportion of all cases, are now being managed manually outside the IT systems because of these challenges. As a result, the database is not a complete record of case activity.

23. The existence of supplementary financial and management information systems has been essential to allow the Child Support Agency to manage its case load and prepare its financial statements. However, the potential for error in the formal ledgers existed throughout the accounting period and the amount of work required to maintain adequate accounting records is unduly onerous.

24. The work to address these problems is continuing, and considerable progress has been made, particularly in the past two years. A major upgrade to the CS2 system was originally due for release in the spring of 2008 but implementation has been deferred to ensure the robustness of the planned upgrade. In preparation for the upgrade, the Child Support Agency has committed a considerable amount of effort to cleansing the data within the existing systems and preparing the data necessary to populate the accounting ledgers which will be maintained under the new systems. A number of extensive exercises to review data have been carried out so that all issues are fully identified and addressed by the planned enhancements to the software.

25. The CSCS and CS2 ledgers hold the majority of data on debt balances, but this information is not held in a form which provides the Child Support Agency with important information on the age of individual debts. As a result, the Child Support Agency has developed an additional set of data to improve the quality of information available to support its debt collection role. The Child Support Agency is continuing to work to improve the robustness of these records.

26. The scale and nature of the debt, and the quality of information available, means that the Child Support Agency faces a significant challenge to determine that the balances on individual cases are accurate and to target collection efforts in the most effective way. During 2007-08, the Child Support Agency commissioned consultants to assist on two major projects: the first examines the accuracy of debt balances held; and the second focuses on collectability of debt. The Child Support Agency expects the outcome of these exercises to be available in the near future and this will assist the newly-established Child Maintenance and Enforcement Commission to develop its strategy on collection of debt.

## Recent Developments

27. Following Royal Assent of the Child Maintenance and Other Payments Act, 2008, The Child Maintenance and Enforcement Commission has been established and is expected to become fully operational later this year. At that point, all of the responsibilities of the Child Support Agency will transfer to the Commission.

28. In preparation for transfer of responsibilities to the Commission, the Agency has continued its commitment to implementing its Operational Improvement Programme. Alongside improving the quality of service provided to clients and the improved accuracy of maintenance assessments as reported in Figure 1 above, the Operational Improvement Plan is also addressing significant problems with the major IT systems which are central to both case management and the accounting processes.

29. The improvements already achieved and the further improvements due for delivery this year are undoubtedly significant in terms of the legacy which the Child Support Agency will pass to the Child Maintenance and Enforcement Commission later this year. However, fundamental challenges remain in terms of the extent of error within debt balances and the levels of accuracy being achieved in the calculation of maintenance assessments. It also remains to be seen whether the planned enhancements to the IT systems, scheduled for delivery later this year, will address all of the serious weaknesses which have undermined the Child Support Agency's ability to maintain accurate financial records and to generate appropriate management information. My staff will continue to monitor progress.

## Conclusion

30. I welcome the significant efforts made by the Child Support Agency to address the long-standing and deep-seated problems which it has faced since its establishment. The estimated level of error in maintenance assessments remains material, however, and I have qualified my opinion on the regularity of receipts and payments in the accounts and the associated debt. I have also have qualified my opinion on the truth and fairness of the debt balances reported in Note 6 to the Accounts, primarily because of errors in maintenance assessments in previous years.

### **T J Burr**

Comptroller and Auditor General  
National Audit Office  
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21 July 2008

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For further information or to contact us

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## Website

You can find more information about our services at [www.csa.gov.uk](http://www.csa.gov.uk)

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

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

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

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

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