

Presented pursuant to c.5, s.167(4) of the Social Security (Administration) Act 1992

Social Fund Accounts 2005-2006

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Foreword

Background information

The Social Fund was established in 1987 and is controlled and managed under section 167 of the Social Security Administration Act 1992. Section 138(1) of the Social Security Contributions and Benefits Act 1992 enables payments of prescribed amounts to be made out of the Fund to meet, in prescribed circumstances, Maternity and Funeral expenses and payments of Budgeting Loans, Crisis Loans and Community Care Grants in accordance with directions given or guidance issued by the Secretary of State. Section 138(2) of the Act provides for payments to enable people who satisfy prescribed qualified conditions to meet expenses for heating incurred or likely to be incurred during periods of cold weather.

The first phase of the Social Fund comprising Maternity and Funeral expenses came into operation on 6 April 1987. The second phase was introduced on 11 April 1988 and replaced all remaining Supplementary Benefit single payments and some urgent needs payments. Regulations were introduced in November 1988, which provided for payments from the Social Fund to be made to certain customers following a period of cold weather, enhanced by further regulations in November 1991 to include payments when cold weather is forecast. Winter Fuel Payments were introduced in 1997 to provide automatic help to pensioner households with fuel bills to pay. Legislation was introduced with effect from April 1998 that allowed the recovery of Social Fund overpayments.

Payments from the Fund are split into two broad categories, discretionary and regulated. Discretionary payments comprise Budgeting Loans, Crisis Loans and Community Care Grants and are cash limited. Regulated payments are Maternity and Funeral expenses payments, which are demand led, and Cold Weather and Winter Fuel Payments, which are paid automatically to qualifying customers.

Categories of payments

Budgeting Loans

Interest free loans may be made to customers in receipt of Income Support, Pension Credit or Jobseekers Allowance (Income Based) to help them cope with the expenditure associated with the purchase of major items or services.

Crisis Loans

Interest free loans may be made to any customer, primarily to help relieve a serious risk to health or safety of customers and their dependants.

Community Care Grants

Payments may be made to promote the community care of customers qualifying for Income Support, Pension Credit or Jobseekers Allowance (Income Based). The main purpose is to help vulnerable groups lead an independent life in the community rather than go into institutional or residential care, or help such people re-establish themselves in the community following a period of such care; ease exceptional pressures on families; and to help with certain urgent travelling expenses.

Maternity Payments and Sure Start Maternity Grants

2000-2001 saw the abolition of the Social Fund Maternity Payments scheme, which had been in existence since 1987, and its replacement by the Sure Start Maternity Grant scheme. The Sure Start Maternity Grant was introduced on 27 March 2000, it is available to families receiving Income Support, Job Seekers Allowance (Income Based), Working Tax Credit where a disability or a severe disability element is included in the award, Pension Credit, and Child Tax Credit at a rate higher than the family element for each child expected, born or the subject of a parental order on or after 11 June 2000.

Rather than ceasing Maternity Payments and introducing Maternity Grants on one day, the two benefits ran in parallel until the end of the last possible claim period for Maternity Payments (10 September 2000). Initially worth £200 (double the old Maternity Payment), the Grant increased to £300 from 17 September 2000 in respect of babies due, born, adopted or subject of a parental order on or after 3 December 2000, and to £500 (with effect from 31 March 2002) in respect of babies due, born, adopted or subject of a parental order on or after 16 June 2002.

Funeral Expenses Payments

Payments to help with the cost of a funeral may be made to customers or their partners, who are in receipt of Income Support or Jobseekers Allowance (Income Based), Working Tax Credit where a disability or severe disability element is included in the award, Child Tax Credit at a rate higher than the family element, Housing Benefit or Council Tax Benefit. Payments are normally recoverable from the estate of the deceased, even if the estate is not fully sufficient to permit full recovery.

Cold Weather Payments

Payable to customers receiving Pension Credit. Also payable to customers in receipt of Income Support, or income based Jobseekers Allowance who also have a disability, or a pensioner premium, or who have a disabled child or a child under five years of age, to receive payments of £8.50 for each period of seven consecutive days during which the average temperature was or was forecast to be 0 degrees Celsius or below in areas where customers live.

Winter Fuel Payments

The Winter Fuel Payments scheme was introduced by the Secretary of State by Regulations made in exercise of powers conferred by section 138(2) of the Social Security Contributions and Benefits Act 1992. These regulations, which came into force on 16 January 1998, allow for payments to pensioner households, where a qualifying benefit was payable to one or more persons in that household for at least one day in the qualifying week. The qualifying week is usually in September. (In 2005-2006 the qualifying period was week commencing 19 September).

The European Court of Justice announced on 16 December 1999 that the Winter Fuel Payments scheme discriminated against men between the ages of 60 and 64. Following the judgement, the Government decided that help through Winter Fuel Payments would be extended to all people aged 60 or over, who are ordinarily resident in Great Britain or Northern Ireland, regardless of whether they are receiving a Social Security Benefit.

Where there is only one person in the household who is entitled, the full Winter Fuel Payment is paid. If there are other people in the household who qualify, the lower level of Winter Fuel Payment is paid to each qualifying person.

Financial Performance

Section 78(1) of the Social Security Administration Act 1992 provides that an award from the Social Fund, which is repayable (Budgeting Loans and Crisis Loans), shall be recoverable by the Secretary of State. The Social Fund is financed by these recoveries and by payments made by the Secretary of State from RfR 3 of the Department's Vote. In addition, section 78(4) of the Act provides that payments to meet funeral expenses may be recovered from the estate of the deceased.

During 2005-2006 £649 million of recoverable loans were issued, which added to the debt owed to the Fund. Recovery of loans paid back into the Fund, during the year were £548 million, against original forecast recoveries of £570 million.

The Social Fund closing balance will vary from year to year but the policy intention is to maintain within the Fund a minimum standing balance. This balance, which was set by Treasury in 1988 at £15 million, represents a contingency to ensure that the fund does not go into deficit. The purpose of the balance target is to ensure that should the level of recoveries not be as high as forecast, or should there be an unexpected surge of Cold Weather payments, which becomes apparent too late to be dealt with by Supplementary Estimates, these can be contained within the Fund. Cold Weather payments alone have exceeded this level in two of the last five years (2000-2001 at £30 million and 2001-2002 at £16 million), illustrating an increased level of risk attached to the original minimum level. The value of the minimum balance has been reviewed therefore during 2005-2006 and has been increased with Treasury approval to £25 million.

The Social Fund is maintained by monies voted by Parliament under RfR 3 of the Department's Vote. Expenditure is estimated at the start of the year and, taking into account forecast recoveries, sufficient funds are transferred from RfR 3 to the Fund to meet the Department's expected liabilities to the paying agents. Adjustments are made to the balances due to and from the paying agents during the normal course of business.

The standing balance on the account has decreased to £50 million. Any in year over funding of the discretionary payments is adjusted for in the following year.

Secretary of State's report

The Secretary of State is required by section 167(5) and (6) of the Social Security Administration Act 1992 to prepare an annual report on the Social Fund and to lay a copy of the report before each House of Parliament. The latest annual report (Command 6856) was presented to Parliament in July 2006 and gives a detailed account of the activities and provisional expenditure on the Social Fund for 2005-2006.

Basis of preparation of Accounts

Under section 167(4) of the Social Security Administration Act 1992, Accounts of the Social Fund are to be prepared in such form and in such manner and at such times as the Treasury may direct.

Audit arrangements

The Comptroller and Auditor General is required under section 167(4) of the Social Security Administration Act 1992 to examine and certify the Social Fund Account and to lay copies of it, together with his report on it, before Parliament.

Statement of Accounting Officer's responsibilities

The Treasury has appointed me, the Permanent Secretary of the Department for Work and Pensions, as the Accounting Officer for the Social Fund. The relevant responsibilities of the Accounting Officer, including my responsibility for the propriety and regularity of the public finances for which I am answerable and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

Leigh Lewis
Accounting Officer

2 November 2006

Statement on Internal Control (Social Fund)

1 April 2005 - 31 March 2006

As Accounting Officer for the Social Fund, I am responsible for maintaining a sound system of internal control that supports the achievement of the aims, objectives and policies of the fund, set by the Department's Ministers, whilst safeguarding the public funds and departmental assets of the Fund for which I am personally accountable in accordance with the responsibilities assigned to me in Government Accounting.

The Social Fund is mostly administered by Jobcentre Plus, an Executive Agency of the Department for Work and Pensions and those elements of Social Fund activity administered by Jobcentre Plus are therefore managed within the Agency's internal control environment. This Statement on Internal Control describes the Jobcentre Plus internal control framework.

Although we have introduced an additional element of Jobcentre Plus oversight regarding this Social Fund SIC, it has not been possible given the timeframe to fully formalise Social Fund accountabilities for 2005-2006 and our focus has been on formalising arrangements for the 2006-2007 year. This statement therefore only includes a review by the Jobcentre Plus Corporate Governance Board after the conclusion of the 2005-2006 year. There has been no ongoing review during 2005-2006 of the Social Fund by the Jobcentre Plus Corporate Governance Board.

Responsibility for Social Fund processing and delivery within Jobcentre Plus lies with the Jobcentre Plus Chief Operating Officer who has responsibility for all operational staff, whilst policy implementation, day to day delivery change impact and improvements to the Fund fall under the remit of the Jobcentre Plus Director of Transformation and Product Management.

The only elements of Social Fund activity not administered by Jobcentre Plus are Winter Fuel Payments. These are administered by The Pension Service, and as such these activities are carried out within its internal control environment. In producing this statement I have received a separate assurance from The Pension Service that it had effective and efficient internal controls in place for the administration of Winter Fuel Payments.

The Accounting Officer for the Fund is the Permanent Secretary of the Department for Work and Pensions. The 2004-2005 Statement on Internal Control was produced centrally within DWP to reflect that Accounting Officer status and was also endorsed by my Departmental Audit Committee. In November 2005, the National Audit Office raised concerns over the lack of clarity for Social Fund accountability and as a result, this Statement has been produced by Jobcentre Plus and considered by its Corporate Governance Board prior to its final approval by the Departmental Audit Committee.

Performance of the Social Fund is reported to Parliament by the Secretary of State for Work and Pensions in the Annual Report on the Social Fund and in the annual Social Fund Accounts.

The purpose of the system of internal control

The Jobcentre Plus system of internal control is designed to ensure that the risks associated with the delivery of aims, objectives and policies are effectively managed; it does not seek to provide absolute assurance. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Agency's aims, objectives and policies (including the Social Fund), to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically. The system of internal control has been in place in Jobcentre Plus for the year ended 31 March 2006 and up to the date of approval of the Annual Report and Accounts and accords with Treasury guidance.

Capacity to handle risk

The Jobcentre Plus Board provide leadership for the risk management process through regular review of Board level risks. This formal process has been in place for the whole year and is currently being reviewed to ensure optimum effectiveness. The process works on the basis that risks should be managed at an appropriate level.

Until December this year Jobcentre Plus had in place a network of specialist governance managers at region/country/district level and in its directorates with specific responsibility for embedding governance across the Agency. As a result of the Jobcentre Plus Organisational Design Review, and with a view to bringing governance closer to the everyday business of Jobcentre plus, these responsibilities have now been migrated into the performance and planning teams across the Agency.

The risk and control framework

Risk registers are maintained at various levels throughout Jobcentre Plus and reviewed in conjunction with the business planning cycle. In addition any risks on the Board level register are reviewed on a quarterly basis by the Board. Risks can be escalated or de-escalated within Jobcentre Plus, depending on variations to the assessment of risk. There have been no specific Social Fund risks escalated to the Jobcentre Plus Board during the year in question.

Although during the year in question, no risks in respect of the Social Fund have been escalated to the Jobcentre Plus Board for consideration for the Board Risk register, Social Fund risks have been managed at a lower level by the Jobcentre Plus Business Design Directorate. In particular

- risks to the integrity of Social Fund delivery have been managed through a system of mandatory checks in place to confirm the accuracy of decision-making and payments;
- the risk of overspending on discretionary budgets for grants and loans is managed through monitoring expenditure at district and national level respectively;
- the risk of failing to meet the recovery target, which underpins the gross discretionary budget, has been managed through effective recovery mechanisms; and
- risks to development of the Social Fund Computer System (SFCS) have been managed under 'Projects in Controlled Environments' principles and contingency plans are in place should SFCS fail.

I recognise that for 2005-2006, we have not had comprehensive risk management arrangements in place for the Social Fund and more needs to be done to manage Social Fund specific risks at all levels. This situation will be improved in 2006-2007 by Jobcentre Plus' move towards an integrated Business Planning and Assurance Process. This process will be based on accountabilities agreed at Board Director level which now include specific accountability for the appropriate aspects of the Social Fund. The new process will drive out the risks and controls around the discharging of those accountabilities and will require Social Fund risks to be considered more robustly.

The Social Fund operates a system of internal control based on a framework of statutory duties, management information, financial regulations and a process of accountability and delegation as operated throughout Jobcentre Plus. In particular the Social Fund operates

- regular financial reporting against forecast;
- procedures to manage the balance on the discretionary part of the Fund through allocation of budgets to local level and by re-allocating budgets where necessary to ensure equality of access; and
- an annual quantification and reconciliation exercise to verify and validate accounting information.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control has been informed by the work of Risk Assurance Division and the executive managers within Jobcentre Plus and The Pension Service 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. A plan to address weaknesses and ensure continuous improvement of the system is in place.

Further reform and administrative improvement changes will be delivered in 2006-2007 to deliver the requirements of Ministers, and to incorporate changes to the budgeting loan scheme. Administrative improvements to the scheme will be achieved through changes to supporting IT infrastructure, aimed at introducing greater efficiency in line with the introduction of a Standard Operating Model (SOM) and centralised benefit delivery.

A comprehensive review has been carried out on the mandatory checks designed to ensure the accuracy of Social Fund decision-making and legitimacy of payments. Only checks that are risk-focused and cost effective will transfer to the new Business Control System (BCS) planned for January 2007. This will provide a compliance and assurance system to support the performance of mandatory checks.

The NAO report 'Helping those in financial hardship: the running of the Social Fund' was published in January 2005 and an action plan was put in place to address the issues raised. All the issues have been addressed during 2005-2006, with short-term actions complete and longer-term actions planned or in train.

Significant control weaknesses

My managers, with input from Risk Assurance Division, identified the following key areas where further improvement was necessary

- a **Accountability for the Social Fund:** The issues raised by NAO in November 2005 regarding the lack of clear accountabilities and oversight for the Social Fund have not been fully addressed during 2005-2006. However, given the relatively short time span between the issues being raised and the production of these accounts, a good deal of progress has been made that will significantly improve the situation in the future. Work is underway to improve the clarification of accountabilities across the Department and, for 2006-2007, specific formal accountabilities in respect of the Social Fund have been agreed with the Jobcentre Plus Chief Executive, Chief Operating Officer and Director of Transformation and Product Management. Specific assurances will be regularly sought from them through the Jobcentre Plus Corporate Governance Board regarding the discharging of these accountabilities. Any actions required to address weaknesses in the 2005-2006 SIC will be forwarded to the Jobcentre Plus Corporate Governance Board which will oversee progress and ensure that improvements are realised. The 2006-2007 Social Fund Statement on Internal Control will be produced by Jobcentre Plus and monitored on an ongoing basis by their Corporate Governance Board.
- b **Debt Management:** We are continuing to work closely with Debt Management and Jobcentre Plus Field coordinators on the migration of the Fund's cash recovery work into the Debt Management Debt Centre Manchester, which began in September 2005. To date in excess of 166,000 Social Fund debts (applications) with a total value in excess of £46m have now been migrated to Debt Management control and are being actively pursued. At the end of April 2006 Debt Management had recovered £1.225m of Social Fund debts previously not in active recovery. Clerical referral procedures continue with appropriate quality checks in place to assure data integrity, until the introduction of an electronic referral solution due in October 2006. Procedural and process development continues to be refined as a result of the introduction of the Social Fund Computer System and Debt Management Computer System interface in February 2006.
- c **Clerical Activity:** A major recommendation was made by the NAO with regard to reducing clerical activity and the number of records held off system. In response to this a system change to SFCS is scheduled for October 2006 as part of the Social Fund Reform and Administrative Improvements initiative. This will introduce an increase to the number of applications and repayable awards that can be recorded on SFCS. The introduction of a Local Payment System has also contributed to improving this process, automating both clerical cheque production and the receipt of related accounting and reconciliation data. From October the facility will also be available enabling the system to issue payments on clerical cases direct to customers' bank accounts.

- d **Non Compliance:** Work on the Standard Operating Model has continued this year with further development work being needed on some elements after evaluation of early pilots. Modelling the Social Fund processes is now approaching completion with the final pilots of Community Care Grant and Crisis Loans finishing shortly. The pilots will be evaluated and the Social Fund Standard Operating Model will be rolled out in line with Benefit Delivery Centres in 2006-2007. Our move towards developing a Model for the Social Fund has meant that traditional internal audit reviews of elements of the Fund were not applicable this year. DWP Risk Assurance Division has instead focussed its work on the development of the Model and has identified issues in respect of the telephony system which have impacted adversely on customer accessibility. These issues are not unique to the Social Fund and are being dealt with as an organisational issue by DWP.
- e **Discretionary Decision Making:** In order to reduce delays to customers, Social Fund officers have been given new flexibilities under 'direction 49' to consider the automatic award of a Crisis Loan where an application for a Community Care Grant has previously been refused, or vice versa. Issues have been identified by the NAO regarding the quality and type of evidence being used in decision-making, which has in some cases led to inconsistencies. We are currently considering what support is needed for decision makers to ensure consistency in the process. A further issue concerns the award of Crisis Loans where there is no clear documentary evidence of a genuine crisis e.g. where a customer is not in receipt of a qualifying benefit for a Budgeting Loan but has been awarded a Crisis Loan instead. Whilst the reason for this is a drive to provide customers in need with a source of affordable credit, clearly there must be consistency in applying the qualifying criteria. Once again we will be providing additional support and guidance for our decision makers where applicable.
- f **Document Retrieval:** Problems have continued with the Department's ability to retrieve documents from remote storage. This resulted in the qualification of the 2004-2005 Social Fund Accounts. This is a DWP wide issue and is being dealt with through the contract management process and through our on-line FARIO (File And Retrieval Information Online) system. FARIO was rolled out across DWP between August and November 2005 and has resulted in an increased retrieval success rate of 97 per cent against a target of 98 per cent, compared to 68 per cent during the last contract. I recognise, however, that, based on past retrieval problems, this level may possibly be lower for Social Fund Cases. To further ensure that this issue is addressed, I requested that my Risk Assurance Division carry out a review of missing files in DWP. This review is now complete and has made a number of recommendations which have been accepted by management and will be progressed in 2006-2007.
- g **Fraud and Error:** The Department has in place comprehensive procedures for estimating the value of losses in benefit expenditure through fraud and error, though these do not cover payments made from the Social Fund. Testing by NAO and the Department has identified a number of possible irregularities relating to crisis loans. The investigation of these irregularities is ongoing and consideration will be given to any actions required to address them.

Leigh Lewis
Accounting Officer

2 November 2006

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the Social Fund White Paper Account for the year ended 31 March 2006 under section 167(4) of the Social Security Administration Act 1992. The accounts comprise the Receipts and Payments account, Statement of Balances and notes relating to receipts and payments and the debt position. The accounts have been prepared on a cash basis in the form directed by HM Treasury.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the accounts in accordance with section 167(4) of the Social Security Administration Act 1992 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 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 accounts properly present the receipts and payments and whether the accounts have been properly prepared in accordance with section 167(4) of the Social Security Administration Act 1992 and HM Treasury directions made thereunder. I also report whether 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. I also report to you if, in my opinion, the Foreword is not consistent with the account, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 4 to 8 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statement on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department'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 accounts. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the accounts. 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 except that the scope of my work was limited as explained below. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the accounts. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the accounts and of whether the accounting policies are most appropriate to the Social Fund's circumstances, consistently applied and adequately disclosed.

I planned 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 accounts are free from material misstatement, whether caused by fraud or error and that, in all material respects, conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the accounts.

The scope of my examination was limited because I have not been able to obtain sufficient appropriate evidence to confirm that awards in respect of Crisis Loans totalling £84.449 million have been made accurately and in accordance with rules and regulations approved by Parliament.

There were no other satisfactory procedures that I could adopt to confirm that payments of Crisis Loans had been made accurately and applied to the purposes intended by Parliament.

Qualified opinion arising from limitation in audit scope

In my opinion

- except for any adjustments that may have been found to be necessary had I been able to obtain sufficient evidence on the level of irregular payments within £84.449 million of Crisis Loan payments, 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;
- except for any adjustments that may have been found to be necessary had I been able to obtain sufficient evidence concerning the assessment of £84.449 million of Crisis Loans, the accounts properly present the receipts and payments for the year ended 31 March 2006 and balances as at that date;
- In respect alone of the limitation on my work relating to payments of Crisis Loans I have not obtained all the information and explanations that I considered necessary for the purpose of my audit;
- the accounts have been properly prepared in accordance with section 167(4) of the Social Security Administration Act 1992 and HM Treasury directions made thereunder.

Details of these matters are explained more fully in my Report on pages 11 to 12.

Sir John Bourn
Comptroller and Auditor General

3 November 2006

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Report by the Comptroller and Auditor General

Introduction

- 1 The Social Fund White Paper Account records payments of £2.9 billion made by the Department for Work and Pensions to customers in respect of
 - Regulated Winter Fuel Payments (£2 billion), Funeral Expenses (£45 million), Sure Start Maternity Grants (£120 million) and Cold Weather Payments (£8.8 million); and
 - Discretionary payments for Budgeting Loans (£519 million), Community Care Grants (£138 million) and Crisis Loans (£84 million).
- 2 The Account also includes receipts of £2.9 billion including £547 million from the repayment of Budgeting and Crisis Loans.
- 3 In 2003-2004 and 2004-2005 I qualified my opinion on the accounts because I was unable to confirm that the Department had maintained proper accounting records for certain Social Fund transactions and that I had received all the information and explanations I required for my audit. Specifically, in 2004-2005 the evidence made available by the Department to support amounts recorded in the accounts for Budgeting Loan payments, Crisis Loan payments, Community Care Grants, Budgeting Loan repayments and Crisis Loan repayments, was limited to a significant degree.
- 4 The Department has taken significant steps to improve document storage and retrieval. They include the letting of a contract with a new storage provider and introducing a standard storage and retrieval process supported by a modern IT system. As a result of these improvements the Department was able to provide sufficient supporting papers to enable me to complete satisfactorily my testing of Social Fund transactions in 2005-2006, except for Crisis Loans (see paragraphs 5 to 10).

Audit opinion

- 5 I have not been able to obtain sufficient appropriate evidence to confirm that awards in respect of Crisis Loans have been made accurately and in accordance with rules and regulations approved by Parliament. Accordingly I have qualified my opinion on the £84 million shown in the account as payments of Crisis Loans.

Scope limitation of audit opinion

- 6 As part of my audit I reviewed a sample of Crisis Loan awards to provide assurance that payments were accurate and regular, that is in accordance with the eligibility conditions approved by Parliament. Despite overall improvements in their document storage and retrieval arrangements, the Department was unable to locate the case papers in six per cent of my sample so that I could not verify the accuracy and regularity of the relevant payments.
- 7 In nine per cent of the cases in my sample I noted that the Department's decision makers had not adequately documented the reasons for awarding a Crisis Loan, leaving the regularity of the award open to doubt. The Department has acknowledged in the Statement on Internal Control on page five of the Account, that there are weaknesses in the administration of Crisis Loans. It is taking steps to ensure that the documentation of these decisions is improved by enhanced staff training and supervision.
- 8 In a further four per cent of cases I found evidence that awards had been made when the qualifying conditions had not been met by the applicant, resulting in irregular payments. In one case I noted an irregular payment where misrepresentation by the customer is suspected.

- 9 The Department has comprehensive procedures for estimating the value of losses from fraud and error in benefit expenditure. However, these do not cover payments from the Social Fund, which have been regarded as low risk. This means that the Department is unable to confirm that the full extent of losses from irregularities in the award of Crisis Loans is at a tolerable level. Therefore, in conjunction with the Department's investigations team, I tested a further sample of Crisis Loan awards with similar features to the case where misrepresentation by the customer is suspected. This examination identified further possible irregularities which the Department is continuing to investigate. I will review the outcome of these investigations as part of my 2006-2007 audit of the Social Fund.
- 10 As a result I have not been able to obtain the information and explanations that I considered necessary for the purpose of my audit of Crisis Loans. Therefore, I have qualified my audit opinion in respect of Crisis Loans.

Sir John Bourn
Comptroller and Auditor General

3 November 2006

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Receipts and Payments Account for the year ended 31 March 2006

	2005-2006 £000	2004-2005 £000
Receipts		
Receipts from the Secretary of State		
RfR 3 – Discretionary	187,923	
RfR 3 – Regulated	146,965	
RfR 3 - Winter Fuel Payments (Regulated)	1,969,806	
	2,304,694	2,255,889
Repayments of budgeting loans	476,761	467,636
Repayments of crisis loans	69,980	67,450
Repayments of funeral expenses payments	1,171	1,533
Refund of Social Fund overpayments discretionary	42	55
Refund of Social Fund overpayments regulated	38	45
	2,852,686	2,792,608
<i>Less</i>		
Payments		
<i>Discretionary</i>		
Budgeting Loans	518,771	486,457
Community Care Grants	137,821	127,202
Crisis Loans	84,449	82,322
<i>Regulated</i>		
Winter Fuel Payments	1,987,640	1,956,329
Funeral Expenses	45,449	46,162
Sure Start Maternity Grants	120,402	118,321
Cold Weather Payments	8,798	1,933
	2,903,330	2,818,726
Excess of payments over receipts	50,644	26,118

Statement of Balances

	2005-2006 £000	2004-2005 £000
Opening Balance	100,270	126,388
<i>minus</i>		
Excess of payments over receipts	50,644	26,118
Closing balance	49,626	100,270

The Notes on pages 14 to 17 form part of this Account.

Leigh Lewis
Accounting Officer

2 November 2006

Notes to the Account

1 Accounting policies

The Account has been prepared in accordance with sections 167(4) of the Social Security Administration Act 1992. It has been prepared on a cash basis with no provision for accruals and in a form directed by the Treasury shown as an annex to this Account. The figures for 2004-2005 are given for comparison and are taken from the Account for that year (Houses of Commons Paper No HC724 of 2004-2005).

2 Financial basis of the Social Fund

Payments from the Fund are split into two broad categories, Discretionary and Regulated. Discretionary payments comprise Budgeting Loans, Crisis Loans, and Community Care Grants and are cash limited. Regulated payments are Maternity Expenses Payments, Sure Start Maternity Grants and Funeral Expenses Payments, which are demand led and Cold Weather payments and Winter Fuel payments, which are paid to qualifying customers. Section 78(1) of the Social Security Administration Act 1992 provides that, an award from the Social Fund, which is repayable, shall be recovered by the Secretary of State. The Social Fund is financed by these recoveries and payments made by the Secretary of State from RfR 3 of the Departmental Vote. In addition, section 78(4) of the Act provides that payments to meet funeral expenses may be recovered from the estate of the deceased.

3 Statement of loans

	Budgeting Loans £000	Crisis Loans £000	Total £000
Amount outstanding at 1 April 2005	451,571	178,469	630,040
Amount loaned	518,770	84,449	603,219
Amount recovered	(476,761)	(69,980)	(546,741)
Adjustments and amounts written off	(2,060)	(923)	(2,983)
Amount outstanding at 31 March 2006	<u>491,520</u>	<u>192,015</u>	<u>683,535</u>

The amount for loans outstanding at 31 March 2006 shown in this note is based on cumulative advances and repayments disclosed in the receipts and payments account less accounting adjustments and amounts written off.

4 Standing balance

The Social Fund closing balance will vary from year to year but the policy intention is to maintain within the Fund a minimum standing balance. This balance, which was set by the Treasury in 1988 at £15 million, represents a contingency to ensure that the Fund does not go into deficit. The purpose of the balance target is to ensure that should the level of recoveries not be as high as forecast, or should there be an unexpected surge in cold weather payments which becomes apparent too late to be dealt with by Supplementary Estimates, these can be contained within the Fund. Cold Weather payments alone have exceeded this level in two of the last five years (2000-2001 at £30 million and 2001-2002 at £16 million), illustrating an increased level of risk attached to the original minimum level. The value of the minimum balance has been reviewed during 2005-2006 and has been increased, with Treasury approval, to £25 million.

The Social Fund is maintained by monies voted by Parliament in RfR 3 of the Department's Vote. Expenditure is estimated at the start of the year and, taking into account forecast recoveries, sufficient funds are transferred from RfR 3 to the Fund to meet the Department's expected liabilities to the paying agents. Adjustments are made to the balances due to and from the paying agents during the normal course of business.

5 Age of loans analysis

Between April 1988, when the Social Fund loans scheme was introduced, and March 2006, loans of some £6,568 million have been paid. Over this period, £5,849 million of these loans have been recovered and £35 million written off, leaving a balance of £684 million outstanding at 31 March 2006. Loans are normally recovered by deduction from Social Security benefits and, where this is not possible, by cash instalments. Where a customer has more than one loan, the earliest loan is normally recovered first, with recovery of later loans following automatically. A minority of loans may take several years to recover fully. This may be due to the customer losing entitlement to benefit and recovery being deferred until a further claim is made.

An analysis of age of loans outstanding is summarised below

Age of loan	Budgeting Loans £000	Crisis Loans £000	Total £000
5 years and over	52,057	31,922	83,979
Between 1 year and less than 5 years	128,454	89,165	217,619
Less than 1 year	311,009	70,928	381,937
	<u>491,520</u>	<u>192,015</u>	<u>683,535</u>

6 Statement of Funeral expenses payments outstanding

	£000
Amount outstanding at 1 April 2005	96,518
Payments made	45,449
Amount recovered	(1,171)
Adjustments and amounts deemed irrecoverable	(41,867)
Amount outstanding at 31 March 2006	<u>98,929</u>

The amount for Funeral expenses payments outstanding at 31 March 2006 shown in this note is based on cumulative payments and repayments disclosed in the receipts and payments account, less accounting adjustments and amounts deemed irrecoverable.

Funeral expenses payments are recoverable only from the estate of the deceased, even if the estate is not fully sufficient to permit full recovery. However in the majority of cases the estate is insufficient for the Funeral expenses payments to be recovered. Accordingly the amount shown above as outstanding does not reflect the amount that may be recovered.

7 Age analysis of Funeral expenses payments outstanding

An analysis of the age of Funeral expenses payments outstanding is summarised below

	£000
Age of Funeral payment	
5 years and over	3,646
Between 1 year and 5 years	51,623
Less than 1 year	43,660
	<u>98,929</u>

8 Statement of losses

	£000
Recoverable loans impracticable to pursue (25,742 cases)	2,905
Claims for recoverable Funeral Expenses payments abandoned due to insufficient estate (32,716 cases)	32,775
Claims for recoverable Funeral Expenses abandoned because they are impossible/unreasonable to pursue (8,784 cases)	9,096
Losses due to irrecoverable overpayments (Non-loans) recorded during the year (326 cases)	88
	<u>44,864</u>

9 Benefit fraud

In April 1999 the Department for Social Security (now the Department for Work and Pensions) introduced a new Programme Protection strategy as set out in the White Paper 'A New Contract for Welfare: Safeguarding Social Security'. The Public Service Agreement supporting this strategy published in March 1999 and amended in the spending reviews of 2000 and 2002 has one key output target – to reduce the level of fraud and error in Income Support and Jobseekers Allowance by at least 33 per cent by 2004 and 50 per cent by 2006. Area Benefit reviews combined with the work of the Quality Assurance Teams aim to provide a continuous programme of measurement of incorrectness in Income Support and Jobseekers Allowance (Income Based) against which progress will be measured.

Significant Social Fund benefits are paid annually to persons in receipt of the qualifying benefits of Income Support or Jobseekers Allowance (Income Based). The level of fraudulent claims for these benefits will therefore impact on the payments made from the Social Fund. However additional qualifying conditions for entitlement to Social Fund payments reduce the scope for losses from fraud. Also, loans are repayable and even where there may be misrepresentation in respect of qualifying benefits some entitlement to payments from Social Fund may still remain. In view of this, the Department for Work and Pensions consider that the level of fraudulent applications that are successful is unlikely to be material.

10 Disclosure on the face of the account

From 5 October 1998, new legislation under Section 75 of the Social Security Act 1998 inserted a new section 71ZA into the Social Security Administration Act 1992, which enabled the Secretary of State to recover Discretionary Social Fund payments which have been overpaid as a result of misrepresentation or failure to disclose. As a result figures relating to subsequent recovery of Social Fund overpayments have been included on the face of the receipts and payments account. The Secretary of State has always been able to recover overpayments relating to Regulated payments and classification between Regulated and Discretionary overpayment recoveries has been included for clarity.

11 Extra Statutory

Winter Fuel Payments (WFP) were introduced in 1997-1998 and provide a lump sum benefit to qualifying people aged 60 or over who are ordinarily resident in GB or NI. One group of people who do not qualify for WFPs are those who have been resident in a care home for more than 13 weeks and who are in receipt of IS/JSA. This is because it is assumed that they already get help for their accommodation costs through IS/JSA.

12 Social Fund Balance

	Liabilities £000	Assets £000
HM Paymaster General		26,543
Social Security Benefits and other Payments Vote		35,843
Alliance and Leicester Commercial Bank	18,785	
Administration and Miscellaneous Services Vote		2,614
National Insurance Fund		2,192
Timing Difference		1,219
Balance of Social Fund	49,626	
	<u>68,411</u>	<u>68,411</u>

Leigh Lewis
Accounting Officer

2 November 2006

Accounts Direction given by HM Treasury

- 1 The Treasury in accordance with section 167(4) of the Social Security Administration Act 1992 hereby gives the following direction.
- 2 The statement of account which it is the duty of the Department of Social Security to prepare in respect of the transactions of the Social Fund for the financial year ended 31 March 1996 in respect of any subsequent financial year, shall comprise
 - a a foreword;
 - b an account of receipts and payments;
 - c a statement of balances;and shall include any such notes as may be necessary for the purposes referred to in the attached schedule.
- 3 The Accounting Officer shall observe all relevant accounting and disclosure requirements in 'Government Accounting' and any other guidance issued by HM Treasury, as amended or augmented from time to time.
- 4 The format of the statement of account and the disclosure requirements are in the attached schedule.
- 5 The Accounting Officer shall sign the foreword and account.
- 6 The Accounts Direction shall be produced as an annex to the accounts.

Jamie Mortimer
Treasury Officer of Accounts

Schedule - Format of Account and Disclosure Requirements

- 1 The foreword shall state that the account has been prepared in accordance with a direction issued by Treasury in pursuance of section 167(4) of the Social Security Administration Act 1992. The foreword will also include details of the following
 - a a brief history of the Social Fund and its statutory background;
 - b categories of payment;
 - c financial performance;
 - d the publication of the Secretary of State's report;
 - e audit arrangements; and
 - f responsibilities of the Accounting Officer.
- 2 The receipts and payments account and statement of balances shall conform to the formats shown in the Annex, although minor variations may be made.
- 3 The notes shall include
 - a an explanation of the financial basis of the Social Fund;
 - b a statement of loans including an age analysis of loans outstanding;
 - c a statement of losses; and
 - d the policy on maintaining a standing balance.

Annex

Receipts and Payments Account for the year ended 31 March XXXX

	£000	20XX-XX £000	20XX-XX £000
Receipts			
Receipts from the Secretary of State			
RfR - Discretionary			
RfR - Regulated			
RfR - Winter Fuel (Regulated)			
Repayments of Budgeting Loans			
Repayments of Crisis Loans			
Repayments of Funeral Expenses Payments			
Refund of Social Fund Overpayments Discretionary			
Refund of Social Fund Overpayments Regulated		_____	_____
		_____	_____
<i>Less</i>			
Payments			
<i>Discretionary</i>			
Budgeting Loans			
Crisis Loans			
Community Care Grants			
<i>Regulated</i>			
Winter Fuel Payments			
Funeral Expenses			
Maternity Expenses			
Cold Weather Payments		_____	_____
		_____	_____
Excess of receipts over payments			
(Excess of payments over receipts)			

Statement of Balances

	20XX-XX £000	20XX-XX £000
Opening balance		
<i>Plus</i>		
Excess of receipts over payments		
<i>Less</i>		
(Excess of payments over receipts)		
Closing balance		

The notes on pages 14 to 17 form part of this account.

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