



Treasury Minutes on the Fourth, Ninth and Twelfth Reports from the Committee of Public Accounts 2005-2006

- 4th Report: Fraud and error in benefit expenditure
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Social Fund

**Presented to Parliament by the Financial Secretary
to the Treasury by Command of Her Majesty
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TREASURY MINUTES DATED 16 JANUARY 2006 ON
THE FOURTH, NINTH AND TWELFTH REPORTS
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Fourth Report

The Department for Work and Pensions

Fraud and Error in Benefit Expenditure

PAC Conclusion (i): The Department has made good progress in reducing losses from fraud and error in Income Support and Jobseeker's Allowance by 38% since 1997-98, but still has a long way to go. The Department's estimates suggest that overall around £3 billion has been lost from fraud and error in each year of the last three years. There are also underpayments, an estimated £385 million in 2003-04. Notwithstanding the progress made, the Department is still not performing to the standards that might reasonably be expected in terms of paying the correct amount of benefit to those who are properly entitled. The Department is also unable to identify exactly how much is owed to it by many of its customers, and has problems with basic record keeping.

1. The Department for Work and Pensions (the Department) accepts this conclusion. While the Department has done much to make improvements in this area it accepts that there is more to be done. Fraud and error are different issues but the Department takes both seriously. The latest annual estimates of fraud are at their lowest levels ever recorded, at 0.8% of spend.
2. On Thursday 13 October 2005, the Department published a strategy paper on fraud in the benefit system¹, which outlined its achievements to date and plans for the future.
3. Whilst the levels of customer and official error are low, a total of 1.5% in terms of the amount of benefits paid out, the Department shares the Committee's concern that the monetary value is still too high. The Department has already introduced new initiatives including specialist checking teams and standard ways of processing benefits to tackle mistakes. It is also developing a strategy to address and reduce loss through error.
4. On the questions of basic record keeping and outstanding debt owing to the Department see response to Conclusions (8) and (10) below.

PAC Conclusion (ii): Continuous measurement of fraud and error for all benefits would be prohibitively expensive, but the Department needs estimates that are more accurate than the nearest £500 million. The Department should develop a measurement programme that covers all benefits, with continuous reviews for those considered to be at highest risk of fraud and error, and periodic reviews which are kept up to date for those at lower risk. The forthcoming results of the exercise to measure fraud and error in Disability Living Allowance should improve the accuracy of the overall fraud and error estimate.

¹ Reducing fraud in the benefit system: Achievements and ambitions pub: DWP October 2005

5. The Department recognises the importance of measuring fraud accurately. Since 2003-2004, measurement techniques have improved so that at present fraud and error estimates are rounded to the nearest £100 million.

6. In comparison to practice in other countries, the National Audit Office has acknowledged that the Department “are in the forefront in developing estimates of welfare fraud loss” (NAO report published on 13 February 2003²).

7. Coverage has gradually expanded; the most vulnerable benefits (Income Support, Jobseeker’s Allowance; Housing Benefit; Pension Credit) are now covered by continuous measurement.

8. The Department is also committed to put in place, by 2008, arrangements to provide a more reliable and accurate estimate of overpayment through fraud and error in benefits other than Income Support; Jobseeker’s Allowance; Housing Benefit and Pension Credit. This will be achieved by supplementing the existing continuing measurement of high-risk or high spend benefits by a series of national benefit reviews of other major benefits. In the light of this the Department reported on levels of fraud and error in Disability Living Allowance in July 2005 and is currently measuring fraud and error in State Pension.

9. This will enable the Department to have information on benefits covering almost 90 per cent of the Department’s expenditure, enabling it to provide a more accurate estimate of total loss.

PAC Conclusion (iii): The Department should benchmark its performance against comparable organisations. While recognising the difficulties of obtaining comparative data, particularly from the private sector, the Department – perhaps in conjunction with the National Audit Office – should see what might be done to compare its present performance on fraud and error with social security authorities or major private sector financial institutions in the United Kingdom and abroad. The aim would be to identify good practice which could help raise the Department’s administration to the standards of the best.

10. The Department welcomes and accepts this recommendation. While absolute comparisons with the private sector and social security administrations in other countries are difficult, the Department believes that its overall level of loss is likely to compare favourably with such comparitors.

11. For example, the Association of British Insurers believes that general insurance fraud is costing their sector around £1.5 billion a year and that fraud losses are running at around 5 per cent. The Department compares very favourably with its loss through fraud now estimated to be less than 1%.

12. Currently the Department is still the only organisation of which we are aware, that uses a rolling measurement system to estimate the scale of loss though the Association of British Insurers is committed to adopting a similar approach. This will allow the Department to make further comparisons in the future.

² NAO Report – Department for Work and Pensions: Tackling Benefit Fraud published on 13 February 2003, HC 393 2002-2003 ISBN 010292063X

13. Where possible the Department does compare its performance on official error against that of other countries and compares favourably with, for example, Australia and the USA.

14. The NAO in collaboration with RAND Europe, have now started the fieldwork on a study on International benchmarking for fraud and error.

PAC Conclusion (iv): Wholesale simplification of the benefit system would require policy decisions about the fundamental principles underpinning welfare benefits such as equity and support for those in most need, and could result in large increases in benefit expenditure. Within these constraints, the Department has nevertheless simplified the rules for some benefits such as Housing Benefit and Pension Credit. It should extend these efforts to other benefits. When introducing new benefits it should frame the rules, systems and processes to make it easier for both staff and customers to understand and apply the regulations.

15. The Government accepts that there are areas where it should consider simplification of the benefits' system and aims to build on changes already made with proposals in its forthcoming Welfare Reform Green Paper.

16. The Department is always working to simplify the system. In particular the Department's Permanent Secretary informed the Committee at its hearing on 7 December of his intention to set up a dedicated team to lead the work on the simplification of benefits within the Department. Amongst other things, the team will consult the National Audit Office and the Social Security Advisory Committee on setting out principles on simplification to guide benefit design and delivery and to report regularly on progress in this area. The Department has already improved procedures for claiming benefits through greater use of telephony. Jobcentre Plus is introducing an electronic customer management system and has appointed financial assessors to help individuals with their claims. In addition the Disability and Carers Service is working to shorten claim forms and make greater use of telephony.

PAC Conclusion (v): At an estimated £1.5 billion each year the monetary value of losses due to errors by staff in making benefit payments remains too high. The recent major re-organisation to form Jobcentre Plus and the Pension Service led to an increase in the level of errors by officials. This is due to staff moving into unfamiliar roles and the introduction of new methods of working and IT systems. In managing any future changes, the Department should anticipate that levels of official error may rise and plan to deal with this through a comprehensive programme of training and support for staff making decisions on benefit awards.

17. The Department recognises that one of the underlying causes of increasing official error (half of the £1.5 billion is due to official error, the remainder is due to customer error) has been the organisational change as Jobcentre Plus and the Pension Service were created, coupled with the impact of new style offices and new ways of working rolling out nationally. However, in the longer term these changes will bring improvement.

18. The Department did, however, foresee the possibility of disruption to the reduction in official error programme and planned for a controlled roll out of Jobcentre Plus to attempt to minimise the possibility of falling performance.

19. The Department is currently taking the following measures to reduce official error:

- greater management focus is being directed at official error;
- better benefit management in Jobcentre Plus;
- improvement programmes with Local Authorities;
- development of a Standard Operating Model in Jobcentre Plus;
- benefit centralisation in Jobcentre Plus and The Pension Service;
- modernising Information Technology across the Department; and
- improving support for staff making benefit decisions.

PAC Conclusion (vi): To meet efficiency targets, the Department is being asked to shed 30,000 jobs, around one quarter of its workforce, at a time when it will be seeking to tackle the persistent causes of fraud and error. The prospect of job losses may affect morale and lead to increased turnover of staff whose skills are most needed to combat fraud and error. The Department should communicate its intentions early and clearly to all staff to reduce uncertainty about their future.

PAC Conclusion (vii): The Department is planning how to meet the targets set for it with a reduced workforce, but in determining where job losses should take place, it should guard against making administrative savings at the expense of the reduction of losses in benefit expenditure from fraud and error. In particular it should assess the savings which can be derived from additional staffing being deployed on effective fraud prevention and detection activities such as data matching and intelligence analysis.

20. The Department is delivering efficiencies not cuts. The efficiency programme is founded on significant investment to modernise the Department; to automate much of its labour intensive processing work; to remove duplication and rationalise its service delivery and to rebuild a slimmer corporate centre. None of this will be detrimental to the Department's ability to deliver its overall service. The Department's managers will continue to communicate with staff and to take steps to address their concerns as the efficiency programme is implemented.

21. In addition, the programme for modernising the Department's Information Technology infrastructure includes: the Payment Modernisation Programme (where order books have been phased out thereby saving on instrument of payment fraud and administration costs); the new Customer Management and Information Systems. The Department will continue to address the way in which it tackles fraud and error through:

- process compliance to get claims right;
- customer compliance interviews to maximise customer responses to changes that affect their benefit; and
- criminal investigation to sanction in the case of more serious fraud.

22. These measures, especially the development of customer compliance interviews, will enable the Department to tackle more allegations of fraud through face to face contact than it can now.

PAC Conclusion (viii): To administer benefits fairly and accurately the Department needs to be able to retrieve their customers' records without undue effort. The Department has taken steps to improve document storage and retrieval, but improvements are needed beyond the current rate of 1.3% not being found. This should arise from activities such as computer logging of all new and existing files under the new storage contract.

23. The Department accepts that case paper retrieval rates need to improve from the levels recorded in the 2003-04 accounting year and has worked hard with its new supplier to correct the information and improve service levels.

24. A full audit of stored files has been completed and the Department has set performance and accuracy targets of 99 per cent for all transactions within the contract. These targets are 4 per cent higher than previous levels.

25. The implementation of the electronic on-line file retrieval system now gives total transparency for users on all records owned by their office held at central storage. The system has built-in controls that ensure that local users record their files and follow the right process.

PAC Conclusion (ix): The Department is introducing new arrangements for managing debt which in around two years should enable it to make substantial progress in identifying debt, maximising recovery and providing a satisfactory audit trail. The Department is spending £100 million on these new debt management arrangements and £2 million on pilot work with private sector debt collectors. The Department should extend this latter work if it can be shown that these collectors provide additional expertise in dealing with those debtors who may be difficult and time consuming to pursue.

26. Following the completion of a successful Pilot exercise, the Department is in negotiation with private sector debt collectors with a view to extending contracts beyond their current termination date of 31st March 2006. It is expected that the extended contracts will be in place before the end of December 2005. Moreover, the remit of the private sector organisations has been extended to assist with debt collection in the Northern Ireland Social Security Agency and the Department for Constitutional Affairs.

PAC Conclusion (x) – The Department has recovered only £550 million of the estimated £9 billion overpaid in the last three years. Given the potential to recover more money for the Exchequer, the Department should give priority to increasing the rate at which debts are recognised and recorded, for example by tightening local office procedures so that all benefit overpayments are identified at source.

27. The £9billion lost (£3billion a year) in fraud and error is based on a sampling exercise. It is not identified loss. The amount recovered relates to debt that has been identified. In the last three years, approximately £915million new recoverable debt has been identified and £562million recovered.

28. Whilst the Department recognises that increased debt recovery would be desirable, there are legal and policy constraints that limit the rate of recovery of benefit debts from current benefit entitlement. These limits are in place to ensure that recovery does not cause undue hardship to people who are often the most vulnerable in society.

29. The Department is taking steps to recover more debt. The debt programme, which it initiated in April 2001, has modernised the Department's approach to overpayments and the management of resulting debts. This includes using external debt recovery agencies.

30. Through the debt programme, the Department has:

- introduced a new organisational structure and standard business processes;
- implemented financial controls based on business risk; and
- replaced a suite of stand-alone former information systems with a single, industry standard information technology system known as Debt Manager;
- agreed standards for overpayment referrals (in terms of both quantity and quality) with its delivery businesses, thereby aiming to improve the recognition and referrals of debts with a more effective analysis of the causes of overpayments.

31. During 2005/06 the Department will commence roll out of an E-enabled system (Operational Document Management System) for referring debts owed to Jobcentre Plus, The Pension Service, and the Disability and Carers Service to the debt centres for action.

32. The benefits of these measures will be to:

- increase the focus on the management and reduction of debt;
- improve the Department's financial control and accounting;
- increase recoveries of overpayment;
- reduce new debt arising through improved analysis of its causes; and
- ensure accurate debtor accounts that reconcile with consolidated entries on the Resource Accounts balance sheet.

Ninth Report

Department of Environment, Food and Rural Affairs

Foot and Mouth Disease: applying the lessons

PAC conclusion (i): The Department has tightened controls over the payment of compensation to farmers for slaughtered animals through appointing an approved list of valuers, remunerating valuers on an hourly basis rather than a percentage of the valuation, and using average price data from the Meat and Livestock Commission to inform valuations.

1. The Department accepts this conclusion and welcomes the recognition that the Department has tightened controls over the payments of compensation to farmers for slaughtered animals.

PAC conclusion (ii): For non-standard and pedigree animals, however, the Department still relies on professional valuations, even though experience from 2001 suggests some valuations were two to three times the underlying worth of the animal. The Department should seek to substantiate such valuations by reference to other relevant data, for example original purchase price or values for similar animals in different parts of the country. It should challenge, and expect the farmer or valuer to justify, any unusual movements.

2. For FMD, the primary legislation – the Animal Health Act 1981 – specifies that the amount of compensation must be the value of the animal. The Department accepts that the valuations should be informed by reference to the type of data the Committee cites and it will make this explicit in its standard instructions to valuers. The current instructions, which draw heavily on the experience gained from the 2001 outbreak, already require that, when valuing a pedigree animal (e.g. a bull), the Defra Officer present must be advised before any valuation of high value is submitted to the owner. But legal advice is that in the absence of negligence by the valuer, the Department is not able to challenge a valuation once it has been given to the farmer.

3. The Department will also implement a new cattle disease compensation system covering Bovine TB, Brucellosis, BSE and Enzootic Bovine Leukosis, based primarily on table valuations, in early 2006. Payments for these diseases are controlled in secondary legislation, enabled by the Animal Health Act. A Compensation Advisory Group (made up of stakeholder representatives) will be established as soon as practical after the introduction of the system. The Group will provide advice on possible enhancements to the new cattle compensation arrangements.

PAC conclusion (iii): Implementation of a levy scheme could transfer part or all of the cost of future disease outbreaks from the taxpayer to farmers, as is the case already for arable farmers. A levy scheme could also provide incentives to improve farm biosecurity, for example by linking the amount of levy contribution to standards of biosecurity maintained on a farm. The Department should make quick progress on consultation on such a scheme, and should resolve quickly the question of transferring to the industry the costs of secondary disinfection of farms.

4. On 28 November 2005 Defra announced, in its “Partners for success – A farm regulation and charging strategy”, the establishment of a joint working group with industry to develop risk sharing arrangements. The Group first met on 16 December. It is taking forward the issues of “transferring part or all of the costs of future disease outbreaks from taxpayers to farmers”. Joint responsibility means that the industry will have a direct interest in ensuring that compensation is reasonable. A levy might be one way of achieving this – but it is not the only way.

5. The Group is expected to contribute to the wider agenda relating to Defra’s overall strategic approach for regulation and charging. The plan is for the group to come forward with options for the sharing of risks and responsibilities, including costs, during the spring of 2006. Subject to the views of Ministers, this will form the basis of a wider consultation over the summer.

6. The work of the Group forms part of the Animal Health and Welfare Strategy, which was published in June 2004. An important element will be for industry to take ownership of the issue of cost sharing and see it as a means of improving on-farm biosecurity and health planning. In this context the Group will consider how a new approach can introduce incentives to secure better animal health and welfare.

PAC conclusion (iv): Weak financial controls operated by the Department during the 2001 outbreak have made it difficult for the Department to substantiate and settle contractors’ invoices, some of which are now four years old. The Department should set a deadline for completion of its detailed forensic audit work and for settling all outstanding claims.

7. The Department will have finished its reviews of all contractor accounts relevant to the 2001 outbreak by the end of March 2006 but is dependent on judicial timescales and the work of the relevant investigating authorities in concluding all the commercial and valuer disputes. There have been delays in settlement because of the unwillingness of some contractors to engage in dispute resolution procedures and these have in some case necessitated legal proceedings. The Department has been diligent in pursuing those cases where it believes it was overcharged. Where it has the evidence to pursue fraud in either a civil or criminal context it has and will continue to do so.

8. The Department has spent £30.341 million on professional services investigating close to £1.3 billion of expenditure on goods, services and works arising out of the FMD outbreak. Direct savings of £88.237million have been achieved to date. Additionally, value for money savings – savings which arose from the prevention of expenditure which would otherwise have occurred without commercial negotiation and remedial action – of £797 million have been achieved. Additionally, the Department estimates that its national fee agreement with the CAAV in 2001 saved the taxpayer over £4.78 million in comparison to industry standard fee arrangements. Of this sum, £1.4 million of savings was achieved through commercial dispute resolution.

PAC conclusion (v): Targeting inspections increasingly on a risk assessment basis would reduce risks of a future disease outbreak. Inspectors having and applying a comprehensive and clear understanding of all relevant legislation and regulations is also essential. The Department should enhance the effectiveness of its inspection regime by greater coordination, co-operation and information sharing with local authority staff and through use of peer-review,

quality checks, and training to encourage strict application of animal health regulations.

9. Local Authorities are responsible for the enforcement of animal health and welfare legislation in England and Wales. The use of a risk-based approach is standard in the Local Authority environment. Following the 2001 outbreak of foot-and-mouth disease, a Framework Agreement has been developed between Defra, Welsh Assembly Government (WAG) and Local Authorities on the delivery of services in animal health and welfare. This builds on the risk-based approach by encouraging Local Authorities to develop their risk assessment in partnership with their local State Veterinary Service office. Using this approach enables Local Authorities to target and plan delivery of enforcement to the areas of most concern; for example, where there are large numbers of livestock or where problems have been found in the past.

10. Data on inspections carried out by Local Authorities is recorded on a web-based secure enforcement database – the Animal Health and Welfare Management and Enforcement System (AMES). Most Local Authorities in England and Wales enter enforcement activities, results and actions on AMES. These Authorities cover the area that represents 95 per cent of known livestock movements. The data contained in AMES is shared with the State Veterinary Service and other delivery partners to enable them to better target enforcement activity.

11. Philip Hampton's Report "Reducing administrative burdens: effective inspection and enforcement" was published in March 2005. One of the recommendations is on the use of risk-based inspection and this is being taken forward and developed. Hampton recommended consolidating Defra's Regulatory Bodies into five "thematic regulators", one of these being an "Animal Health Inspectorate". Defra has accepted this proposal in principle.

12. The current delivery arrangements for animal health and welfare are complex. Amongst the bodies delivering animal health and welfare policies are the State Veterinary Service, local authorities, Meat Hygiene Service and the Rural Payments Agency. Comments from stakeholders and customers suggest that clearer, simpler and better coordination of our delivery bodies is the biggest single contribution we can make to better regulation of animal health and welfare. A review of the roles, responsibilities and relationships for inspecting and enforcing animal health and welfare regulations in England was announced on 28 November (as part of the Farm Regulation and Charging Strategy). It is due to report in June.

PAC conclusion (vi): Good biosecurity should be encouraged through effective deterrents for those farmers who fail to meet minimum standards thereby putting at risk their own and others' livelihoods. The Department has limited data on the outcome of local authority prosecutions, or the size of fines imposed by courts. The Department should identify and collect the necessary data and consider whether it would be appropriate to ask the Sentencing Advisory Council to frame a sentencing guideline on breaches of farm biosecurity.

13. Defra collects data from Local Authorities on prosecutions through the AMES database (see paragraph 10 above). This records activities where prosecution is initiated, together with the outcome. We have asked Local Authorities to start recording more information on prosecution activity, including the size of fines imposed by courts.

14. The Department will review whether it would be appropriate to enter into discussion with the Sentencing Advisory Council on producing guidelines on breaches of farm biosecurity.

PAC conclusion (vii): The Department will need first class project management skills to control a future outbreak effectively, ultimate success being dependent on effective coordination with local authorities, emergency services and other stakeholders. The Department has put in place an enhanced contingency plan with clear management responsibilities allocated for operations and finance. The Department should establish a timetable for relevant local bodies to produce contingency plans, and for testing such plans alongside its central plan, in scenarios ranging from accidental to deliberate introduction of diseases.

15. A project management approach to disease control is being taken, in line with the Department's increasing use of project management techniques. As acknowledged in the Report, arrangements are now in place for the immediate posting to Local Disease Control Centres of Regional Operations Directors, Divisional Operations Managers and Finance Managers and the State Veterinary Service is appointing readiness and resilience officers at each Animal Health Divisional Office to develop and manage the offices' readiness and resilience.

16. Coordination with local authorities, emergency services and stakeholders in developing effective contingency arrangements is being taken forward on a number of fronts. This includes:

- the assessment of local authority capability to respond to a range of emergencies and the requirement for them to produce local plans by the Office of the Deputy Prime Minister;
- the preparation by LACORS (Local Authorities Coordinators of Regulatory Services) of a template for local authority contingency planning for animal diseases to provide a consistent approach across all local authorities and ensure that the right issues are addressed in each authority; and
- the involvement of operational partners and stakeholders in workshops, training and exercises at all levels. The aim is to have complementary plans and arrangements that are tried and tested in a range of scenarios.

PAC conclusion (viii): The Department has now clarified its policy and approach to the use of vaccination and/or a contiguous cull to eradicate future disease outbreaks. This approach is being underpinned by a cost benefit analysis of the effectiveness of different disease control options. The Department should meet its commitment to put the report in the public domain quickly.

17. The Final Report of the cost benefit analysis (CBA) of FMD Disease Control Strategies was published on the Defra Website in May 2005 at www.defra.gov.uk/footandmouth/pdf/costben.pdf. The CBA looks at four scenarios that encompass different incursion locations and different disease control strategies. Overall, the CBA suggests that vaccination reduces the size and extent of medium and large outbreaks – although at an additional financial cost in all but the largest outbreaks. Cost, however, is only one of a number of important considerations.

Twelfth Report

The Department for Work and Pensions

Helping those in financial hardship: the running of the Social Fund

PAC conclusion (i): The complex nature of the Social Fund increases the risk that those most in need of support may not benefit. The Fund was introduced to provide a flexible and quick way of making one-off or emergency payments to help the most vulnerable in society. The complex decision making procedures that have since evolved have undermined the original objective of the Fund. The Department needs to reassert the original vision, and design out complex eligibility criteria or processes which discourage vulnerable people from seeking assistance and delay decisions on eligibility.

1. The Social Fund plays an important role in the Government's agenda for tackling poverty and social exclusion. It provides a valuable source of interest free credit for people who might otherwise need to turn to high cost lenders. The Department for Work and Pensions (the Department) is committed to administering the Social Fund as effectively and efficiently as possible.

2. In 2004-05 around 2.75 million grants, loans and other payments were awarded, with a total value of £865 million (excluding Cold Weather Payments and Winter Fuel Payments). The Government has increased the net budgets for the discretionary part of the Social Fund (Budgeting Loans, Community Care Grants and Crisis Loans) from April 2003 to provide an extra £90 million over three years to help those most in need.

3. The Department is working to see how the administration of the Social Fund can be improved and simplified. For example, the Budgeting Loan double debt rule¹ will be abolished in April 2006 and replaced with a single debt rule. The Department is looking at increasing the speed of processing claims where there are problems and the introduction of Benefit Processing Centres will provide greater flexibility. From April 2004, Jobcentre Plus introduced new management indicators for the Social Fund with the aim of maintaining and, where necessary, improving the speed and quality of decisions. Jobcentre Plus has piloted a standard approach in providing Social Fund crisis loans and is reviewing the design of the Social Fund component for its Standard Operating Model in the light of the evaluation of the pilot.

4. An example of where the Department is planning to "design out" complexity is Budgeting Loan maximum amounts. At present an applicant's Budgeting Loan maximum amount depends on their family composition (with amounts added for any partner and different amounts for each child) and their length of time on a qualifying benefit. From April 2006 this will be replaced by a simple three tier system for: (i) a single person, (ii) a couple without children, (iii) a couple or lone parent with at least one child. The length of time on benefit beyond the minimum of six months will not be taken into account. The new system will be easier for staff to explain to customers and simpler for customers to understand.

¹ The double debt rule at present reduces the amount available to borrow by twice the existing budgeting loan debt and so, in some cases, prevents someone with an outstanding budgeting loan from taking out another one.

PAC conclusion (ii): Only around 50% of potential users are aware of the Social Fund. The Department is cautious in advertising Social Fund awards too strongly because of the risk that it will raise expectations which cannot be met. Under half of those potentially eligible have heard that loans and grants are available, and there is no evidence that those who do know about it are those most in need. Staff should draw attention routinely to the existence of the Fund when dealing with new benefit claimants from groups which have tended to make less use of it (e.g. pensioners and ethnic minorities) to increase the chances that those most in need are aware of it.

5. The Department recognises the problem of low awareness and is already taking a number of steps to address it. The Department is approaching the problem in three ways:

- simplifying the scheme so that potential eligibility is easier to explain and understand;
- considering options for improving publicity without creating unrealistic expectations; and
- improving staff awareness.

6. New leaflets and aide-memoires on the Social Fund are being provided for The Pension Service Local Service staff for use in the local community with partnership organisations. This should raise awareness amongst pensioners including those from ethnic minority groups.

7. Claim forms, application forms and leaflets are available in Jobcentre Plus offices and on the Department's internet site. Leaflet GL18, a general leaflet on the Social Fund, sets out as simply as possible the eligibility conditions of the various types of award and is available from Jobcentre Plus offices. A more detailed leaflet, designed primarily for advisers, is available on the Department's internet site. The Social Fund is referred to in many other general benefit leaflets, including those targeted at specific client groups, for example, the bereaved, pregnant women and pensioners.

PAC conclusion (iii): Some customers may be receiving inappropriate advice from the Department because many staff, especially those who joined from the former Employment Service, are not aware of it. The Department should improve Social Fund training given to staff in order to raise awareness, or appoint a Social Fund 'expert' in each jobcentre office who can be consulted.

8. The Department is reviewing its existing training and checking strategies on the Social Fund to ensure that staff awareness of the Social Fund is increased. In line with the Department's Learning and Development strategy, managers and staff in all areas of the Department's businesses are expected to regularly review and identify an individual's training needs and are free to address these in ways that best suit that individual. The Independent Review Service delivered 136 workshops in 2003-04 to Jobcentre Plus staff, of which 71 were awareness sessions for frontline advisers. The Department plans to introduce tailored awareness training and aide memoires to support the rollout of the standard operating model for the Social Fund. A Social Fund awareness programme for Pension Service staff has been developed jointly with the Independent Review Service and piloted in Wales. Everyone in The Pension Service Local Service is receiving a half-day Social Fund awareness workshop and

Pension Centre staff with daily customer contact will also be given awareness training. Subject to satisfactory evaluation, the programme will be rolled out across the country in 2005-06.

9. Separate arrangements for a Social Fund expert in each Jobcentre Plus office would be at odds with the Department's overall policy. However, it does utilise experienced staff to ensure their expertise is transferred to new staff.

PAC conclusion (iv): Over 50% of Budgeting Loan applications refused in 2003-04 were from those with too much existing Social Fund debt. Many customers do not know how much Social Fund debt they have and are often unable to assess their remaining credit limit. The Department should make it easier for customers to find out their debt position before applying for a further loan, for example by enabling customers to check their balances via on-line access to information in jobcentres.

10. The high rate of Budgeting Loan refusals in 2003-04 due to outstanding Social Fund debt was related to the double debt rule where an applicant's existing Budgeting Loan debt was taken into account twice when deciding whether to award a further loan. The change being made in April 2006 will remove the double debt rule from the scheme and replace it with a single debt rule.

11. On line access for customers and tailored customer account statements will be considered as part of the Social Fund Computer System replacement scheduled for 2012. Until then the Department will continue to provide customers, on request, with details of how much they owe the Social Fund.

PAC conclusion (v): There are errors in nearly 50% of Crisis Loans and Funeral Payment decisions. The quality of decision-making varies by award and district. Although some of the decision making errors do not affect the amount paid out, getting decisions right first time is important for efficient administration and good quality of service. The Department should focus on better evidence gathering at the outset, where possible through telephone contact, so as to reduce the proportion of decisions overturned where new evidence arises.

12. The locally reported accuracy rate for all types of Social Fund award except Cold Weather Payments and Winter Fuel Payments which are mainly processed automatically for the current financial year to November 2005 was 88% against a Jobcentre Plus target for 2005-06 of 80%. The 50% error figure for Crisis Loans and Funeral Payments is misleading. In 2003-4 overall accuracy figures for these payments were 52%. However, once cases where there was insufficient evidence available when a decision was first made are included, accuracy figures are 65% and 70%, and with only monetary errors included the figures are 70% and 80%.

13. However, the Department does accept that these numbers are still too high and that the standard of decision-making for some types of Social Fund payment is not as high as it should be. The Department is reviewing its training and checking strategies. The work that is being done to standardise procedures and simplify policy will also be helpful.

14. The Department is moving towards organising Social Fund work into fewer, larger processing sites which will also help to achieve a critical mass for training and

development purposes as the Committee recognises. The Department accepts that information gathering needs to be improved and a new training package for Social Fund decision makers is being written. Evidence gathering will be fully covered in the training and staff will be encouraged to use the telephone to gather evidence where that is appropriate. The Social Fund Guide is currently being amended and more information about the evidence needed to conduct a review is being included.

15. When Benefit Processing Centres are introduced, the Department's preferred method of taking a Crisis Loan application and conducting a review interview will be by telephone. Applications for Budgeting Loans and Community Care Grants and claims for Sure Start Maternity Grants and Funeral Payments will continue to be made in writing on the relevant form(s).

16. The Department will continue to work with the Independent Review Service to identify the most common reasons why decisions are overturned at review stage and to devise suitable training or guidance to address weaknesses.

PAC conclusion (vi): The processing of customers' applications is affected by the limitations in the Social Fund computer system. All districts handle some cases off-system because of lack of space, whilst some staff do not have full access to all benefit records to allow efficient evidence gathering. As a result, they have to request information, adding to the time taken to process applications. The Department advised us that upgrading the capacity of the system has slipped from April to September 2006 but once implemented the increased capacity should improve the efficiency of processing.

17. As the Committee acknowledges, the Department already has plans to upgrade the Social Fund Computer System to address the most significant of its current weaknesses. Recent analysis has identified that improvements to the operating system would now allow for a reasonable increase to the limits at an affordable cost. The Social Fund Computer System will be enhanced for the introduction of the changes in the Budgeting Loans scheme. Changes will also be made in October 2006 to increase the number of applications per customer that can be recorded.

PAC conclusion (vii): Crisis Loans are usually for people in emergencies, but performance against clearance time targets for Crisis Loans is poor in some districts, with an average of 3.5 days in the poorest performing districts. The target has been increased from 1 to 2 days and we expect all Crisis Loan applications to be dealt with within this new target time through, for example, effective evidence gathering by phone and more careful completion of applications in Jobcentres.

18. The Department accepts this recommendation and is working to improve both access to Crisis Loans and Crisis Loan clearance. Jobcentre Plus staff have been informed that urgent applications for living expenses must be dealt with on the day they are received.

19. For 2004-05 the clearance time target for Crisis Loans was two days. All but one district met that target: each district had an average clearance time of 1.7 days or less, apart from one district with an average of 2.2 days.

PAC conclusion (viii): Very large local variations in decision making practices and costs raise doubts about fairness and effectiveness across the country. Some of the variation appears to be inconsistency in decision-making which should be

reduced by better training, whilst variations in costs will be addressed by greater standardisation in practices. The Department was uncertain whether the new standard operating model would be rolled out further. Assuming the pilots are successful, the Department should implement standardised practices quickly to reduce variations and increase efficiency.

20. All local Social Fund decision makers are formally advised to apply the same national baseline Budgeting Loan award amount when determining applications. This means that people with similar circumstances applying for Budgeting Loans are able to borrow the same amount, irrespective of where they live.

21. Cash-limited budgets do still apply in the case of Community Care Grants. However, these budgets are allocated on the basis of recognised local demand.

22. There is still a substantial variation in the percentage of decisions that result in a payment of Crisis Loans due to two factors:

- the type and urgency of applications received; and
- different decision-making practices.

23. To address the second of these factors, Jobcentre Plus has piloted a standard approach in providing Social Fund Crisis Loans and is reviewing the design of the Social Fund component for its Standard Operating Model in the light of the evaluation of the pilot. This will enable Jobcentre Plus to deliver standardised processes throughout the country and will provide a baseline from which to achieve improvements in customer service and efficiency over time.

24. The variation in amount of Funeral Payments results partly from major variations across the country in burial and cremation charges. These amounts can be allowed in full. Other funeral expenses, including undertakers' charges, which vary less widely and which leave scope for customer choice, are subject to a limit up to £700.

PAC conclusion (ix): The Department is unable to find a significant proportion of customer files easily. The Department has experienced problems with the storage and retrieval of case papers, sufficient for the Comptroller and Auditor General to qualify the 2003-04 accounts of the Social Fund. The Department should use the new storage contract to secure improved file retrieval through computer logging of files so that this particular aspect of the qualification is removed for the 2004-05 accounts.

25. The Department accepts that case paper retrieval rates need to improve from the levels recorded in the 2003-04 accounting year and has worked hard with its new supplier to correct the information and improve service levels.

26. The Department was unable to find twenty-four cases by the National Audit Office's audit deadline and, as a result, the qualification remains for the 2004-05 accounts of the Social Fund. However, a retrospective exercise has located an additional twelve cases, representing a retrieval achievement of 96% against the original sample.

27. For 2005-06 the Department has negotiated a revised timetable with the National Audit Office. This is to ensure that the sample is requested from the

Department in time to meet the National Audit Office's deadlines for testing and clearing the accounts of the Social Fund.

28. The Department has set its file storage business partner performance and accuracy targets of 99% for all transactions within the contract. These targets are 4% higher than previous levels.

29. In August 2005 the clerical tracking system was replaced with a new IT on-line retrieval system that now gives clear information for users on all records owned by their office held at the central store. The system has built-in controls that ensure that local users record their files and follow the right process.

PAC conclusion (x): The proportion of debt less than a year old has fallen from 75% to 59% over the last five years and there is a risk it will become harder to collect. The Department should give greater attention to recovering outstanding debt from all customers as soon as they return to benefits by making better use of its new MIDAS software; giving Social Fund staff access to all benefit computer systems to arrange repayments through benefit deductions; pursuing with HM Revenue and Customs the possibility of recovering Social Fund debt from tax credits; and pursuing debt owed by customers whose benefit payments are insufficient to cover agreed repayments.

30. For the majority of customers, repayment of loans is by automatic deduction from benefit, making repayment relatively uncomplicated. In October 2005 62% of Social Fund debtors were on benefit.

31. The Debt Management team is working closely with colleagues in the Social Fund to assist with the swift identification of "return to benefit cases". Where a customer returns to benefit a report is produced for use by Social Fund staff to re-initiate recovery from benefit.

32. The Department is making better use of its new Matching Intelligence Data Analysis Service (MIDAS) software by improving both the quality and number of data items to be matched and is becoming more successful at swiftly identifying when somebody moves back onto benefit. The Debt Management team has introduced formal processes as part of routine operations, as opposed to ad hoc use of MIDAS on an "as and when" basis.

33. It has been agreed that the Department's Debt Management team will now have responsibility for managing those Social Fund Debtors who are receiving benefit, but have insufficient benefit in payment to facilitate recovery by deduction in 2006-07. This will enable the debtors to have access to Direct Debits, Standing Orders, Switch and all other modern payments systems.

34. Social Fund staff do have access to other benefit systems on a read only basis and any recoveries are instigated clerically. There is no plan, at present, to create interfaces with other systems, although this may be considered when the Social Fund Computer System is due to be replaced in 2012.

35. There would be a number of policy and Information Technology issues to consider in deciding whether to recover Social Fund debt from Tax Credits. The current priority should be to ensure the smooth transfer of payments for families with children from Income Support and Jobseeker's Allowance to the Tax Credit.

PAC conclusion (xi): Social Fund debt amongst those not on benefit increased from £90 million in 1999 to £181 million in 2004. Debt cannot be recovered automatically from these people and around half of Social Fund districts said they did not have the resources to pursue this debt. With the centralisation of responsibility for recovering off- benefit debt, the Department should aim to reverse this increase and halve the amount outstanding.

36. From 31 August 2005 the responsibility for the pursuit of Social Fund debtors who are no longer receiving benefit is being transferred to the Debt Management Team. Alongside new referrals, all appropriate, existing “off benefit” cases will be referred by the end of the year to Debt Management for recovery. Following this transfer, and taking account of improved IT processes, it is anticipated that recovery of Social Fund debt from those debtors no longer in receipt of benefit will increase substantially.

37. The Department has also introduced a new computer system (the Social Fund Accounting System) to record debt recovery for clerical cases not maintained by the main Social Fund Computer System.



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