ented pursuant	to c.5, s. 167(4	of the Socia	al Security (A	dministration	n) Act 1992	

## Social Fund Account 2006-2007

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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 qualifying 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 to 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.

#### **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, 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 5 years of age. Customers receive payments of £8.50 for each period of 7 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 2006-2007 the qualifying period was week commencing 18 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 made. If there are other people in the household who qualify, the lower level of Winter Fuel Payments is made 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 2006-2007 £689 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 £554 million, against original forecast recoveries of £544 million.

The Social Fund bank balance will vary from year to year but the policy intention is to maintain within the Fund a minimum 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 the Supplementary process, these can be contained within the Fund. The value of the minimum bank balance was reviewed during 2005-2006 and was 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 increased by £21 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 2006-2007.

#### **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 Chief Executive of Jobcentre Plus, 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.

Lesley Strathie
Accounting Officer

10 July 2007

## Statement on the System of Internal Control (Social Fund) 1 April 2006 - 31 March 2007

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, as such, operates under their internal control environment. The Jobcentre Plus Board and Senior Management Team, in managing the totality of its activities, applies this control environment to Social Fund activities as appropriate. The only exception is that the Pension Service administers Winter Fuel payments, and as such these activities are carried out within their internal control environment. This statement incorporates an assurance provided by The Pension Service, to Jobcentre Plus, that they had effective and efficient internal controls in place for the production of the Winter Fuel Payments paid on behalf of Jobcentre Plus.

Accountability for the Social Fund transferred to Jobcentre Plus from April 2007. This is later than initially planned owing to the need to clarify accountabilities for all aspects of management of the Fund.

Responsibility for Social Fund processing and delivery lies with the Jobcentre Plus Chief Operating Officer, whilst policy implementation, day to day delivery, change impact and improvements to the Fund fall under the remit of the Jobcentre Plus Director of the Transformation and Product Management Directorate (TPMD). Both of these are Jobcentre Plus Board Directors.

Accounting arrangements for Social Fund are carried out by the Department's Shared Services and are covered by a Service Level Agreement (SLA).

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

#### 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 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 2007 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 Chief Operating Officer and the Director of TPMD have specific Social Fund accountabilities, as Board Directors for the Agency they also have a clear accountability framework to ensure that systems are in place to effectively manage risk within their Directorates, and they are required to provide an assurance as to the effectiveness of their risk management arrangements through the Letter of Assurance (LoA) process.

During the course of the year the risk management process was strengthened to allow the Jobcentre Plus Board to focus on strategic risks. Less significant risks to the business are managed through a series of governance subboards. Each of these governance sub-boards is chaired by a Board member and has responsibility for managing risk for the business areas they cover. This approach provides a framework for ensuring that those risks relating to Social Fund activity are managed at the most appropriate level in the organisation. This approach to Jobcentre Plus risk management has been recognised in Risk Assurance Division reports to their Corporate Governance Board.

#### The risk and control framework

Specific Social Fund risks have been escalated to both the Strategic Risk Register, and governance sub-board risk registers, following in-depth discussions by the Jobcentre Plus Board. Aspects of Social Fund activity are also implicit within existing risks managed within governance sub-board risk registers, for example non-compliance with policies and failure to achieve targets. Further work is also being undertaken to develop more effective processes for ensuring that specific Social Fund risks can be escalated to the appropriate level for action.

The system of internal control, within Social Fund, is currently 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.

The introduction in April 2006 of a Jobcentre Plus integrated business planning and assurance process, with specific Board level Social Fund accountabilities, has provided a robust framework to facilitate the identification and management of risks, and so the strengthening of the internal control systems. However I recognise that further work is still required to better demonstrate the management of specific Social Fund risks and Jobcentre Plus Finance Directorate have recently commenced work with key stakeholders to continue to strengthen control in this area.

#### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. I became the Accounting Officer on 1 April 2007 and therefore was not the Accounting Officer for the year ended 31 March 2007. 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 Pensions 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.

The Jobcentre Plus Corporate Governance Board incorporates the functions and responsibilities of an audit committee for the Agency and works with the Department's Risk and Assurance Division to focus on the areas of the business at greatest risk. The Board is chaired by David Coles, a non-executive director. The Corporate Governance Board have received regular updates on actions to address previously identified weaknesses with the Social Fund system of internal control. This allows them to assess the effectiveness of mitigation actions and, where appropriate, request further work to be undertaken to strengthen the control environment. For example a detailed integration action plan was commissioned by the Corporate Governance Board to allow better management of control weaknesses identified by NAO and within the previous Statement of Internal Control.

Jobcentre Plus Board Directors with responsibility for specific Social Fund activity are required to comment on the effectiveness of their internal control systems and risk management procedures through the LoA process. From April 2007 procedures have been introduced to allow better challenge or support to these statements through the introduction of a quarterly integrated assurance report. This report pulls together information from various sources to determine how well Jobcentre Plus internal controls are working and how effectively risks, including those specific to Social Fund, are being managed. The report is presented quarterly to the Jobcentre Plus Corporate Governance Board.

Reliable information is a key requirement of an effective internal control system. The planned roll-out of the new Business Control System (BCS) across Jobcentre Plus during the latter part of 2007-2008 will help improve levels of compliance with the checking regime through the supply of effective and improved management information. Until BCS is introduced, Jobcentre Plus will continue to use the VAT2000 system.

#### Significant control weaknesses

Risk Assurance Division provides an overall assessment of Jobcentre Plus performance in-year. For 2006-2007, their assessment was that of Limited Assurance.

The Corporate Governance Board with input from Risk Assurance Division identified the following key areas where further improvement action was required

- **Risk management:** Whilst I am content that the business planning process linked to specific Board Director accountabilities, introduced at the start of April 2006, has improved risk management capabilities I recognise the need to develop more formal and specific arrangements covering the administration and future development of the Social Fund. To address this issue Jobcentre Plus Finance Directorate have started work with the Social Fund policy team and other stakeholders to strengthen this aspect of work.
- **b Document retrieval:** Although previously reported problems relating to document storage and retrieval have improved over the course of the year a recent upsurge in storage requirements is impacting on the external contractors' capabilities to deliver agreed service standards. This is compounded by non-compliance amongst staff in correctly annotating documents for storage. The Department is working with the external contractor to address these issues and Jobcentre Plus will react positively to any recommendations to improve performance in this area.
- **c Monetary loss through fraud and error:** Jobcentre Plus does not currently have a process in place to provide and estimate for Monetary Value of Fraud and Error (MVFE) in Social Fund payments. However, work is progressing at Departmental level to develop alternative mechanisms to estimate the value of monetary loss and Jobcentre Plus will respond positively to this work to strengthen control in this area. In addition Jobcentre Plus have also put in place or have planned a number of actions to improve the overall control framework and reduce monetary losses through fraud and error:
  - as Benefit Delivery Centres (BDCs) are rolled out they are required to operate the Standard Operating Model (SOM). The increased use of telephony and centralisation of Social Fund expertise, once fully embedded, should enable significant benefits to be realised. All BDCs should be in place and operational by March 2008;
  - guidance is now available to all staff through the corporate intranet;
  - the capacity of the Social Fund Computer System (SFCS) was increased in October 2006 reducing the number of clerically operated cases, whilst a new release of the Local Payment System (LPS) at the end February 2007 has helped by automating clerical cheque production and improving accounting and reconciliation action; and
  - systems are in place to refer cases of fraud and abuse to the Benefits and Fraud Directorate; these are recorded on the investigation system providing a reliable source of management information to identify where specific controls need to be improved.
- **Documenting decisions taken:** To improve the evidencing of decision making Jobcentre Plus, Products and Service Management Division, have taken forward a number of initiatives to support Social Fund staff in their decision making. These include the development of an aide memoir and desk aide to support decision-making, and redesigning the decision making process to better support the capture of evidence to support the payment processes. These have been incorporated into the Social Fund SOM to improve accessibility by staff. During the latter half of 2007-2008 we should also have reliable management information available from BCS, which will improve control over the checking processes, allowing better analysis and, where appropriate, recovery action to be progressed. Introducing more formal risk management arrangements over Social Fund activity will additionally strengthen control in this area by identifying where further mitigation action is required to reduce any risks in the documenting of decisions taken to an acceptable level.

**e Debt Management:** Risk Assurance Division has identified control issues relating to the management of debt in clerical award cases. One of the reasons for this is the limit to the number of applications and loans that can be handled through the Social Fund Computer System. Longer term this issue will be addressed when the Social Fund Computer System is replaced along with other legacy systems; however this solution is some way off. In the interim, Jobcentre Plus intend to improve awareness of accountabilities at local delivery level in ensuring that correct action is taken in these cases. Specific mitigation actions will also be identified and implemented as part of the strengthened risk management arrangements covered at (a) above.

Lesley Strathie
Accounting Officer

10 July 2007

# The Certificate 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 2007 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 accordance with the accounting policies set out within them.

#### 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 to you whether, in my opinion, certain information given in the Foreword which comprises Financial Performance is consistent with the accounts. 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.

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

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the 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. 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 and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the 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.

#### **Opinions**

#### **Audit Opinion**

In my opinion

- The accounts properly present, in accordance with the Social Security Administration Act 1992, the receipts and payments for the year ended 31 March 2007 and balances as at that date;
- the accounts have been properly prepared in accordance with HM Treasury directions made under the Social Security Administration Act 1992; and
- The information given within the Foreword which comprises Financial Performance is consistent with the accounts.

#### **Qualified Audit Opinion on Regularity due to irregular payments**

I have concluded that payments arising from erroneous discretionary Social Fund awards have not been applied to the purposes intended by Parliament and are not in conformity with the authorities which govern them.

Except for irregular payments of discretionary awards which I estimate to be £31.907 million, 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.

Details of this matter are explained more fully in my Report on pages 11 to 14.

Sir John Bourn
Comptroller and Auditor General

23 July 2007

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## Report by the Comptroller and Auditor General

#### Introduction

- 1 The Social Fund White Paper Account records payments of £3.01 billion made by the Department for Work and Pensions to customers in respect of:
- Winter Fuel Payments (£2.016 billion);
- Regulated payments for Funeral Expenses (£46 million), Sure Start Maternity Grants (£120 million) and Cold Weather Payments (£3.4 million); and
- Discretionary payments for Budgeting Loans (£591 million), Community Care Grants (£140 million) and Crisis Loans (£98 million).
- The Account also includes receipts of £3.04 billion including £554 million from the repayment of Budgeting and Crisis Loans. Recovery of loans is made by direct deduction from benefits or, where the customer is no longer on benefit, repayment is arranged through the Department's debt collection service.
- Social Fund awards are administered by Jobcentre Plus, with the exception of Winter Fuel Payments which are administered by The Pension Service on behalf of the Social Fund Accounting Officer.

#### Audit opinion

- 4 I have qualified my opinion on the Social Fund accounts because of substantial levels of error in the award of discretionary payments covering Budgeting Loans, Community Care Grants and Crisis Loans. I provide full details in paragraphs 6 to 10.
- In previous years I qualified my audit opinion because the scope of my audit was limited as a result of the difficulties experienced by the Department in providing case papers to support discretionary awards. I have not repeated this qualification again in 2006-07, although I remain concerned that the Department continues to have difficulty locating case papers in support of the awards it has made. I provide full details in paragraphs 11 to 14.

#### Categories of Discretionary Awards

- Discretionary awards from the Social Fund comprise Budgeting Loans, Crisis Loans and Community Care Grants and are cash limited. Budgeting Loans, which totalled £591 million in 2006-2007 are interest free loans made to customers in receipt of Income Support, Pension Credit or Income Based Jobseekers Allowance and are designed to help them cope with the purchase of major items or services. Crisis Loans (£98 million in 2006-2007) are interest free loans made to any customer to help relieve a serious risk to the health and safety of them or their dependants. Community Care Grants (£140 million in 2006-2007) are payments made to help vulnerable groups lead an independent life in the community, rather than entering institutional or residential care; to help such people re-establish themselves in the community following a period in care; to ease exceptional pressure on families and to help with certain urgent travelling expenses.
- By their nature these types of awards require decision makers to exercise discretion as to whether an award is justified and the value of an award that is appropriate to the customer's circumstances. The Secretary of State provides guidance to decision makers within Jobcentre Plus which is regularly updated via bulletins and the Department's intranet, and is augmented by advice from Independent Review Service inspectors. The nature of difficulties faced by customers applying for discretionary awards means that decision makers have to exercise judgement under considerable time pressure if those difficulties are to be alleviated without giving rise to further hardship. Moreover, due to the cash limited nature of these awards, decision makers are often called on to assess whether an award is the customer's only way of dealing with their difficulties and whether or not they may have access to other funds that will not put them further into debt.

The Department has set an accuracy target of 75 per cent for discretionary awards. Key to achieving this is the training and supervision of decision makers at district level. At a national level the Department reviews the accuracy of decision making, although no attempt is made to amend decisions considered to be inaccurate and there is no estimate of the financial impact of these inaccurate decisions.

#### Estimated irregular payments of discretionary awards

9 The National Audit Office reviewed a sample of the various types of payments from the Social Fund to provide assurance that payments were accurate and in accordance with the eligibility conditions approved by Parliament. While the Department has comprehensive procedures for estimating the value of losses from fraud and error in benefit expenditure these do not cover payments from the Social Fund. Based on its own independent testing the National Audit Office has concluded that the most likely estimate of irregular payments of discretionary awards during 2006-2007 is £31.907 million comprised of the amounts shown in Table 1.

Table 1: Estimated Irregular Payments of Discretionary Awards 2006-2007					
Award Type	Payments 2006-2007 (£'000)	<sup>1</sup> Estimated range of irregular awards (£'000)	Most likely estimate of irregular awards (£'000)	Estimated value of missing cases (£'000)	Most likely value of missing cases (£'000)
<b>Budgeting Loans</b>	591,457	0 – 39,599	15,158	0	0
Crisis Loans	98,007	2,502 – 14,519	8,238	2,239 – 13,076	7,657
Community Care Grants	139,900	0 – 16,605	8,511	1,568 – 18,139	9,853
Total	829,364	N/A <sup>2</sup>	31,907	N/A	17,511

- 10 The National Audit Office did not find any significant evidence of misrepresentation by customers as a contributing factor to the erroneous payments. Irregular payments occur principally because of non-compliance by Jobcentre Plus staff with the qualifying conditions for each award type. An additional factor is that in a number of cases the quality of documentation supporting a decision is not sufficiently clear to demonstrate entitlement by the customer. Jobcentre Plus have acknowledged in the Statement on Internal Control on page 6 the deficiencies in documenting award decisions and outlined the steps being taken during 2007-2008 to bring these to an acceptable standard. Other factors affecting non-compliance with qualifying conditions and poor quality of documentation appear to stem from:
- staffing pressures resulting from re-structuring within Jobcentre Plus as centralised Benefit Delivery Centres are rolled out;
- challenging processing targets for award payments; and
- a lack of documentation standards communicated to decision makers and consistently applied.

#### Document retrieval problems

On completion of processing, Social Fund case papers are sent to remote storage. Historically the Department for Work & Pensions has encountered problems in retrieving significant volumes of case papers across a range of benefits and Social Fund awards.

<sup>1</sup> This ranges from the lower error limit to the upper error limit.

<sup>2</sup> It is not statistically valid to sum upper and lower error limits across award types.

- 12 In 2006-2007 the National Audit Office reviewed the documentation supporting 100 Crisis Loans, 100 Community Care Grants and 100 Budgeting Loans. The Department was unable to provide the National Audit Office with case papers to support the payment of nine Crisis Loans and six Community Care Grants. As a result the National Audit Office estimates that between £2.239 million and £13.076 million of Crisis Loans and between £1.568 million and £18.139 million of Community Care Grants may be unsupported by adequate documentation, including signed loan agreements that underpin the right to repayment. The level of missing documentation in 2006-2007 is consistent with results from previous years but the financial impact is estimated to be less significant and therefore I have not qualified my opinion in this respect.
- 13 In 2005 the Department appointed an external contractor to manage the storage and retrieval of case papers. At the same time the Department consolidated the service into a single store at Heywood and introduced standard storage and retrieval processes supported by a modern IT system. The contractor is required to be able to retrieve 98 per cent of remote storage cases. In 2005-2006 the Department was able to achieve this target for all Social Fund award types except Crisis Loans. In 2006-2007 however, the Department was able to achieve only 95 per cent retrieval on Social Fund discretionary awards.
- 14 The Department told me that the main reason for the decline in retrieval performance was as a result of a significant rise in storage requirements across all business units which has impacted on the contractor's capability to meet agreed service standards. Other factors affecting case retrieval rates include
- Inaccuracies in maintaining centralised logs of the barcodes attached to individual Social Fund case papers resulting in instances of the wrong cases papers being retrieved;
- Delays in booking into store papers sent for storage has resulted in delays in retrieving papers;
- Restructuring within Jobcentre Plus and the creation of Benefit Delivery Centres has resulted in case papers being moved several times between offices and it has proved difficult to track down their exact locations; and
- Key paperwork has become detached from case papers during transit to and from remote storage resulting in a lack of evidence to support awards.

#### Jobcentre Plus' plans to address overpayments and document retrieval issues

- 15 Jobcentre Plus has operational responsibility for delivering the Social Fund. The Agency has told me that it has put in place measures to tackle the issues giving rise to overpayment of discretionary awards and poor document retrieval.
- 16 To improve the evidencing of award decisions Jobcentre Plus are developing desk aides to help support decision making and have re-designed the decision making process to better capture supporting evidence. The Agency is also taking steps to improve the reliability of its management information with a view to enhancing controls over the checking process for awards. Additionally the introduction of more formal risk management arrangements over Social Fund activities will further strengthen controls.
- 17 Although arrangements are not currently in place to estimate the value of overpayments made in Social Fund awards, the Department and Jobcentre Plus are assessing the scope for alternative mechanisms to estimate the value of monetary losses each year.

- 18 Jobcentre Plus has put in place a number of positive steps during 2006-2007 that are designed to improve the control framework around Social Fund awards and reduce monetary losses. In some respects the clearer opinion presented in 2006-2007 arises from the greater clarity around the accuracy of awards resulting from such steps. Additional actions will be rolled out during 2007-2008, which should begin to drive down error. These actions include:
- Enhanced use of telephony and centralisation of award processing;
- Making available decision making guidance to staff via the corporate intranet;
- Improvements to the capacity of the Social Fund Computer System so as to reduce the need for clerical claims;
- Improvements to the Local Payment System to automate clerical cheque production and improve financial accounting; and
- Improvements to the control framework by identifying weaknesses disseminated from the investigation by the Benefits and Fraud Directorate of potential fraud cases.
- 19 With regard to document retrieval the Department is currently working with their records storage contractor to identify the underlying causes of missing records and devise solutions. For example, steps are being taken to remind staff administering awards of the importance of annotating documents properly prior to storage and efforts are being made to clear the backlog of cases currently awaiting placement in stores.
- 20 As part of my 2007-2008 audit of the Social Fund I will monitor the progress made by Jobcentre Plus in these areas.

Sir John Bourn
Comptroller and Auditor General

23 July 2007

National Audit Office 157 - 197 Buckingham Palace Road Victoria London SW1W 9SP

# Receipts and Payments Account for the year ended 31 March 2007

	£000	2006-2007 £000	2005-2006 £000
Receipts			
Receipts from the Secretary of State			
RfR 3 – Discretionary	297,192		
RfR 3 – Regulated	171,966		
RfR 3 – Winter Fuel Payments (Regulated)	2,012,077		
		2,481,235	2,304,694
Repayments of Budgeting Loans		484,354	476,761
Repayments of Crisis Loans		69,551	69,980
Repayments of Funeral Expenses Payments		1,017	1,171
Refund of Social Fund Overpayments Discretionary		31	42
Refund of Social Fund Overpayments Regulated		53	38
		3,036,241	2,852,686
Less			
Payments			
Discretionary			
Budgeting Loans		591,457	518,771
Community Care Grants		139,900	137,821
Crisis Loans		98,007	84,449
Regulated			
Winter Fuel Payments		2,016,100	1,987,640
Funeral Expenses		46,102	45,449
Sure Start Maternity Grants		119,843	120,402
Cold Weather Payments		3,451	8,798
		3,014,860	2,903,330
Excess of receipts over payments		21,381	(50,644)
Statement of Balances			
		2006-2007 £000	2005-2006 £000
Opening Balance Plus		49,626	100,270
Excess of receipts over payments		21,381	(50,644)
Closing balance		71,007	49,626

The Notes on pages 16 to 19 form part of this Account.

Lesley Strathie
Accounting Officer

10 July 2007

### 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 2005-2006 are given for comparison and are taken from the Account for that year (House of Commons Paper No. HC 1701 of 2005-2006).

#### 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 2006	491,520	192,015	683,535
Amount loaned	591,457	98,007	689,464
Amount recovered	(484,354)	(69,551)	(553,905)
Adjustments and amounts written off	(981)	(417)	(1,398)
Amount outstanding at 31 March 2007	597,642	220,054	817,696

The amount for loans outstanding at 31 March 2007 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 Bank balance

The Social Fund closing bank 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 the Supplementary process, these can be contained within the Fund. The value of the minimum balance was reviewed during 2005-2006 and was 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 2007, loans of some £7,257 million have been paid. Over this period, £6,403 million of these loans have been recovered and £36 million written off, leaving a balance of £818 million outstanding at 31 March 2007. 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	60,872	37,519	98,391
Between 1 year and 5 years	143,772	98,028	241,800
Less than 1 year	392,998	84,507	477,505
	597,642	220,054	817,696
6 Statement of Funeral expenses payments outstanding			
			£000
Amount outstanding at 1 April 2006			98,929
Payments made			46,102
Amount recovered			(1,017)
Adjustments and amounts deemed irrecoverable			(45,605)
Amount outstanding at 31 March 2007			98,409

The amount for Funeral expenses payments outstanding at 31 March 2007 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	1,296
Between 1 year and 5 years	52,517
Less than 1 year	44,596
	98,409

#### 8 Statement of losses

	£000
Recoverable loans impracticable to pursue (9,240 cases)	1,297
Claims for recoverable Funeral Expenses payments abandoned due to insufficient estate (31,180 cases)	32,004
Claims for recoverable Funeral Expenses abandoned because they are impossible/unreasonable to pursue (13,247 cases)	13,597
Losses due to irrecoverable overpayments (Non-loans) recorded during the year (370 cases)	130
	47,028

#### 9 Fraud and error

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, in addition to fraudulent claims made to the Social Fund itself. Jobcentre Plus is considering a process to provide and estimate for Money Value of Fraud and Error (MVFE) in Social Fund payments. While JCP consider that the level of fraudulent applications that are successful are not significant, work is progressing at Departmental level to develop appropriate mechanisms to measure their value. Jobcentre Plus have put in place a number of initiatives to improve the overall control framework and reduce monetary losses through fraud and error, including additional support products in the form of specific guidance on the documenting of discretionary Crisis Loans and Community Care Grants. These products, which also promote the consideration of all relevant factors required in discretionary decision making, have for ease of access been placed within the Standard Operating Model which is accessible via the corporate intranet. Systems have also been put in place to facilitate referral of cases of fraud and abuse to the Benefits and Fraud Directorate.

#### 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 1997-98 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
	1000	2000
HM Paymaster General		18,107
Social Security Benefits and other Payments Vote		38,894
Alliance and Leicester Commercial Bank		6,350
Administration and Miscellaneous Services Vote		2,221
National Insurance Fund		1,458
Timing Difference		3,977
Balance of Social Fund	71,007	
	71,007	71,007

Lesley Strathie
Accounting Officer

10 July 2007

#### Annex

## Accounts Direction given by HM Treasury

- 1 The Treasury in accordance with section 167(4) of the Social Security Administration Act 1992 herby gives the following direction.
- 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
  - i a foreword;
  - ii an account of receipts and payments;
  - iii a statement of balances;

and shall include any such notes as may be necessary for the purposes referred to in the attached schedule.

- 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

- 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
- 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

20XX-XX 20XX-XX £000 £000 £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

\_\_\_\_

Less

**Payments** 

Discretionary

**Budgeting Loans** 

Crisis Loans

**Community Care Grants** 

Regulated

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** 20XX-XX **£000** £000

Opening balance

Plus

Excess of receipts over payments

Less

(Excess of payments over receipts)

Closing balance

The notes on pages xx to xx form part of this account.

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