

Appropriation Accounts 1998–99

Volume 12: Class XII Department of Social Security

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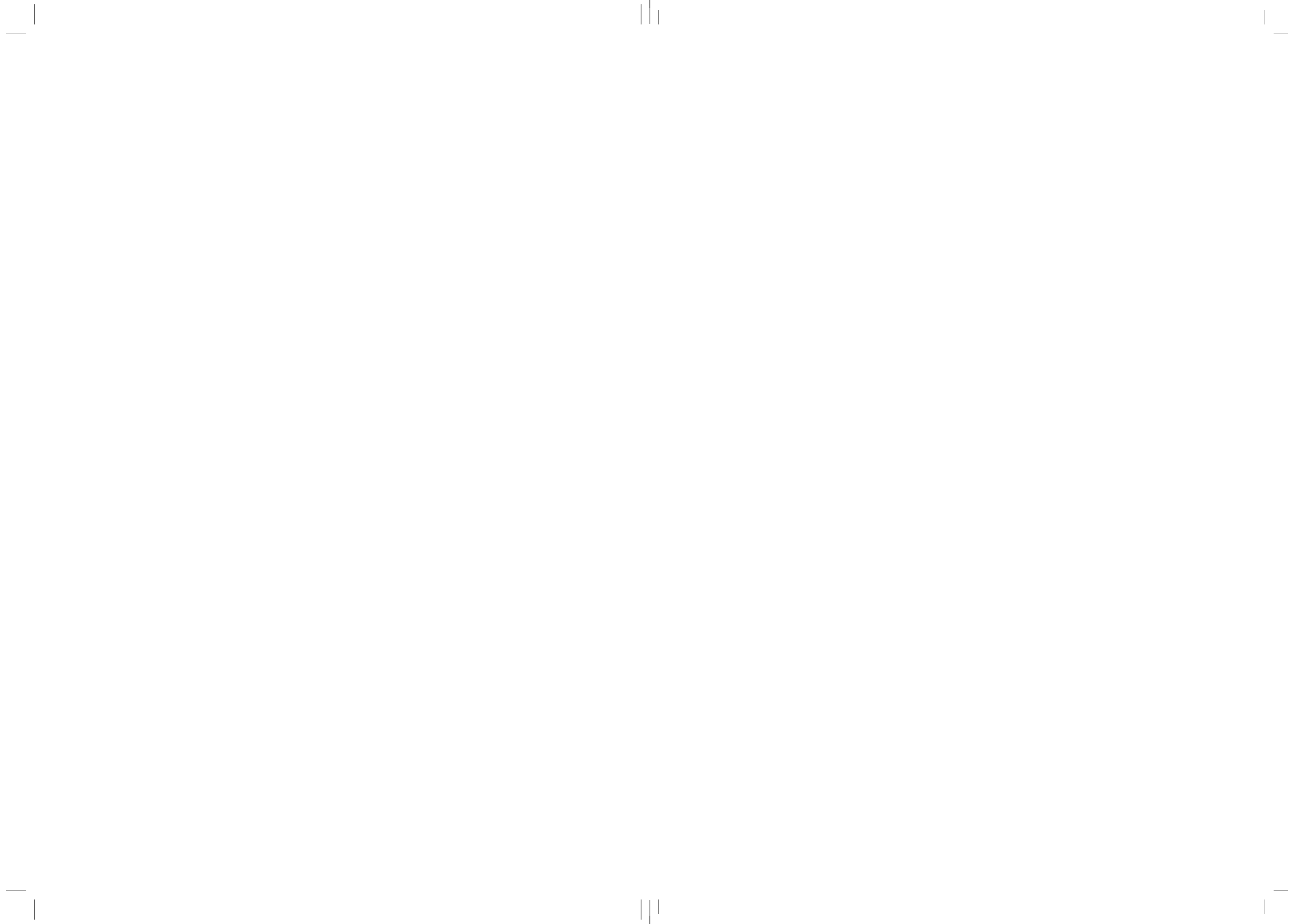
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Appropriation Accounts 1998–99

Volume 12: Class XII Department of Social Security

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The Comptroller and Auditor General

The Comptroller and Auditor General is the head of the National Audit Office employing some 750 staff. He, and the National Audit Office, are totally independent of Government. He certifies the accounts of all Government Departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

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Introduction

The 1998–99 Appropriation Accounts are being published in 18 Volumes:

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1	I	Ministry of Defence
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3	III	International Development
4	IV	Ministry of Agriculture, Fisheries and Food, and Intervention Board— Executive Agency
5	V	Trade and Industry and Export Credits Guarantee Department
6	VI	Environment, Transport and the Regions
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15	XV	Northern Ireland
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17	XVII	Cabinet Office: Office of Public Service, etc
18	XVIII, XVIII A and XVIII B	Cabinet Office: other services, Privy Council Office and Parliament, House of Commons; National Audit Office

Reports on accounts and subjects under consideration

Each volume

Each of the 18 volumes will contain my report on the accounts within it.

Revenue accounts

In volume 6 I will also report upon the revenue generated by the Motor Tax Account—Class VI, Vote 9 (Driver Vehicle Licensing Agency); and in volume 16 I will report upon the results of my examination of the Customs & Excise and Inland Revenue accounts—Class XVI, Votes 3 and 4.

Summary of transactions

A summary of the transactions contained within all 18 volumes is included in the last published volume. The summary will include:

- a summary of Excess Votes required
- a statement of outturn of all Votes and the amount to be surrendered; and
- a statement of the payment of extra receipts to the Consolidated Fund and of the adjustment of balances on the 1997-98 Votes.

The General Report

Once all 18 volumes have been published a final document is produced: *Financial Auditing and Reporting: 1998-99 General Report of the Comptroller and Auditor General*. The General Report brings together the results of financial audit work undertaken by the National Audit Office over the last twelve months and highlights issues arising from it. A number of areas will be covered including:

- Accounting and Auditing Developments
- Audit of Assets
- Audit of Receipts of revenue
- Corporate Governance
- Financial Management and Control
- Inspection Visits
- Resource Accounting
- Summary of Stock and Stores examinations

John Bourn

Comptroller and Auditor General

National Audit Office

13 January 2000

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Executive summary

Introduction

1 The Benefits Agency (the Agency), an executive agency of the Department of Social Security (the Department), administer a wide range of social security benefits, including Income Support, Jobseeker's Allowance, Child Benefit, Family Credit and a number of benefits for the disabled. The Agency account for expenditure on these benefits in the appropriation account for Class XII, Vote 1. In 1998-99 over £37 billion of gross expenditure was charged to this account.

2 This report records the results of my audit examination of this account. I have qualified this account in each of the last eleven years for a variety of reasons, primarily errors in awards of Income Support and other benefits (in each year since the introduction of Income Support in 1988-89) and the level of benefit fraud (in each year since 1994-95).

3 The Committee of Public Accounts have also examined the Department and Agency at regular intervals on this account and my reports, most recently in their 3rd Report of Session 1999-2000, published in January 2000.

4 My report covers:

- Expenditure compared with grant (Part 1)
- Accuracy of benefit awards and benefit overpayments (Part 2)
- Benefit Fraud (Part 3)
- New initiatives to tackle fraud and error (Part 4)

Main findings and conclusions

Expenditure compared with grant

5 Expenditure on benefits in 1998-99 was some £1,675 million less than the grant approved by Parliament. Expenditure is affected by a large number of factors that are difficult to predict in advance, such as the customer take-up levels of individual benefits and the impact of policy changes. During 1998-99 the actual number of awards for many benefits was consistently lower than originally forecast in particular for benefits payable to the disabled. The trend was identified during the year by the Department's monitoring procedures but the expenditure implications could not be quantified in time to allow a revised estimate to be put before Parliament for approval.

Accuracy of benefit awards and benefit overpayments

6 On Income Support the level of accuracy has continued to show year on year improvement increasing from 81.7 per cent to 83.4 per cent by volume between 1997-98 and 1998-99. However, the estimated gross monetary value of error has also shown a significant increase rising from £554.6 million in 1997-98 to £636.8 million in 1998-99. The Agency are continuing with a series of initiatives to improve the level of accuracy, including a greater emphasis on targets for financial accuracy rather than the number of correct cases. Nevertheless, the trend of accuracy to date suggests that significant improvements will take some years to achieve.

7 The NAO's examination of Jobseeker's Allowance awards in 1998-99 estimated the gross monetary value of error at £245.3 million. The level of accuracy by volume of cases, according to the results of the work of the Agency's own Quality Support Team, improved from 85.1 per cent in 1997-98 to 88 per cent in 1998-99. The high level of monetary error reflects the number of awards where there was insufficient evidence that the claimant satisfied the initial conditions for entitlement. The Agency and the Employment Service recognise the need to secure improvements in accuracy and are taking active steps to do so.

8 The Agency have succeeded in reducing the number of benefit cases awaiting overpayment action from 148,000 at 31 March 1998 to 84,000 at 31 March 1999. This was largely achieved through the operation of an Easement Package, which identified and wrote off some 386,000 old cases where recovery of any overpayments would not have been cost effective. The level of outstanding overpayments recorded on benefit systems has, however, risen to £799 million at

31 March 1999. The Agency attribute this rise to their success in improving the identification and control of debt processes and the drive to tackle abuse and incorrectness.

Benefit fraud

9 The Agency continue to afford priority to tackling fraud and abuse in the benefits system. In April 1997 the Agency initiated a series of area benefit reviews to estimate the level of incorrectness, including fraud in Income Support and Jobseeker's Allowance. Interim results from these reviews, which need to be treated with some caution, indicate the combined level of fraud on Income Support and Jobseeker's Allowance (income based) could be as high as £1.53 billion.

10 To tackle fraud on this scale the Agency embarked on a Security and Control Programme which aimed to deliver savings for a given level of investment. Initially the level of savings delivered matched the annual savings target but as the level of activities to counter fraud increased the savings target was no longer achieved. In 1998-99 the Agency reported savings of £1,141 million against a target of £1,781 million. My report highlights some of the operational difficulties faced by the Agency and reports on the validation exercise which adjusted the savings downwards by £525 million prior to performance levels being reported. The strategy for tackling fraud and error was reviewed and in March 1999 a command paper "A new contract for welfare: SAFEGUARDING SOCIAL SECURITY" (Cm 4276) switched the emphasis from chasing fraud savings to preventing fraud entering the system. In the Agency's view this demonstrated the ineffectiveness of measuring performance based solely on detection of fraud and the Agency curtailed the Security and Control Programme at the end of March 1999, replacing it with a new Programme Protection Strategy which began on 1 April 1999.

New initiatives to tackle fraud and error

11 The Programme Protection Strategy supports an overall target to reduce by 30 per cent benefit losses from both fraud and error in Income Support and Jobseeker's Allowance by 31 March 2007, with at least a 10 per cent reduction by 31 March 2002. In addition to measures within the Programme Protection Strategy the Department and the Agency are taking forward a number of initiatives to complement their anti-fraud strategies.

Overall conclusions

12 Whilst welcoming the improvements in volume accuracy of Income Support and Jobseeker's Allowance, and recognising the efforts of the Agency to improve accuracy, I remain concerned at the level of monetary error in these two benefits. Similarly, whilst I welcome the Agency's initiatives to tackle fraud and abuse in the benefit system, the level of benefit fraud continues to give cause for concern.

13 On the basis of my audit, I have qualified my opinion on the 1998-99 account because of the level of error in benefit awards, principally on Income Support and Jobseeker's Allowance, and because of the level of claimant fraud and the fraudulent encashment of instruments of payment, particularly orderbooks and girocheques.

Part 1: Expenditure compared with grant

1.1 This report summarises the results of my audit of the Department of Social Security Class XII, Vote 1 appropriation account for 1998-99.

1.2 In this part I examine expenditure on benefits compared with the grant approved by Parliament. The other parts examine:

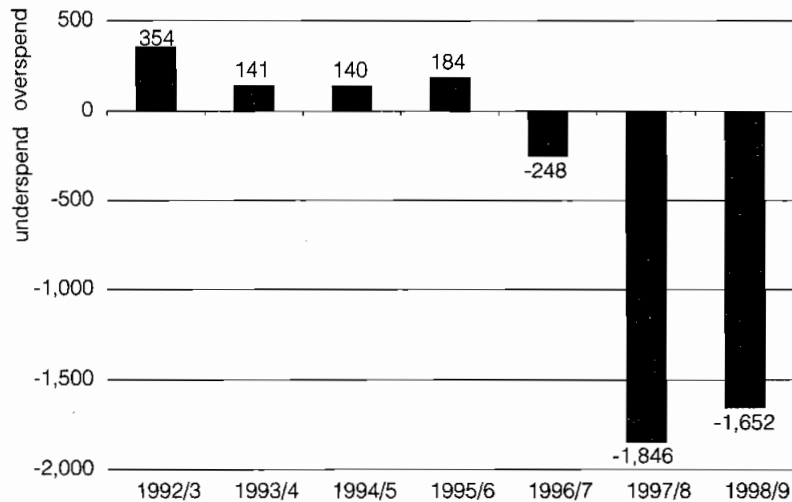
- Part 2: Accuracy of benefit awards and benefit overpayments;
- Part 3: Benefit fraud; and
- Part 4: New initiatives to tackle fraud and error.

Expenditure compared with the Grant

1.3 In 1995 and 1996, the Committee of Public Accounts expressed their concern about the accuracy of the Department's forecasting of benefits expenditure which led to excesses on Vote 1 in each of the four years ending 1995-96. In 1996-97 there was a small underspend of £248 million followed by a significantly larger underspend of £1,846 million in 1997-98 the reasons for which were covered in my last report on this account. This year the Department spent £1,675 million less than the grant of £38,187 million approved by Parliament (Figure 1).

Vote 1 overspends and underspends 1992-93 to 1998-99 (£ million)

Figure 1

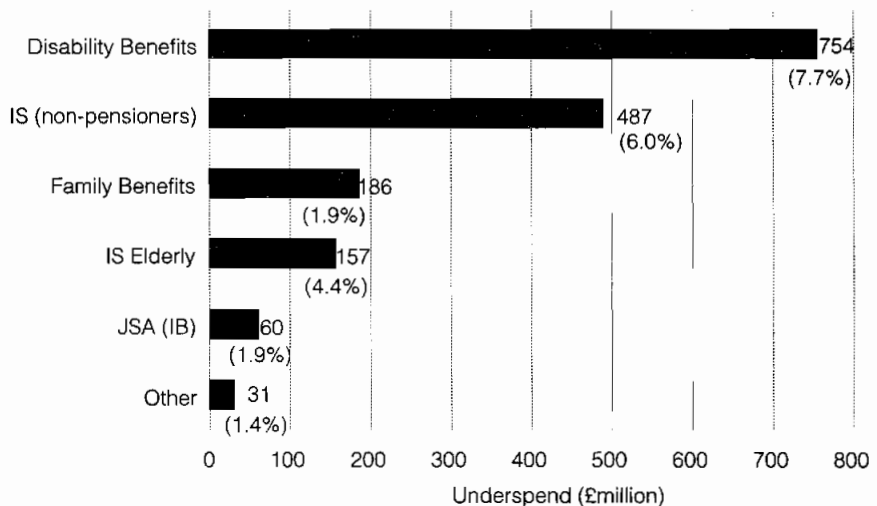


The overspends and underspends are calculated compared to the Parliamentary Grant. For the years 1993/93 to 1996/97 this included supplementary grants obtained within the financial year to which they relate. For 1997/98 the grant was based on the Main Estimate, which was produced before the beginning of the financial year.

1.4 In 1998-99 there were underspends on most of the individual benefits, the largest on disability benefits and Income Support. There was also a shortfall in appropriations in aid of £79 million. Figure 2 shows the extent of the underspends, compared with Grant for individual benefits.

Analysis of underspend

Figure 2



*Percentage figures in brackets refer to the underspend as a proportion of net benefit expenditure.

1.5 As I have noted in previous years the demand-led nature of benefit expenditure means that there are inherent uncertainties in attempting to forecast spend. Expenditure is affected by a large number of factors that are difficult to predict in advance, such as the customer take-up levels of individual benefits and the impact of policy changes.

1.6 The National Audit Office's review of outturn has found that the actual number of awards of benefits was consistently lower than originally forecast. The most significant were benefits to the disabled where customer levels rose less than was anticipated at the time the Department prepared its forecasts.

1.7 The Department's in-year expenditure monitoring identified a large underspend before mid-year, in August 1998. Once the annual Appropriation Act was passed (16 July 1998) setting the year's Grant, the Department could not revise its forecasts downwards in line with revised expectations.

1.8 I have looked at whether the Department could have identified sooner that the forecasts were significantly higher than expenditure. I have found that monitoring of actual expenditure is too volatile to reveal a reliable pattern until August, when three full month's data is available. My review of benefit caseloads found that there were some indications of a possible underspend from early within the year. However, the full magnitude of the expenditure impact of lower than expected customer levels was not apparent until later in the year when it was quantified by in-year expenditure monitoring.

Conclusions

1.9 Fewer disabled customers than expected has led to expenditure being significantly less than anticipated when the forecasts were made prior to the start of the financial year. The Department identified this during the year from their expenditure monitoring, however by that time it was too late to reduce the Grant contained in the Appropriation Act. The number of new awards for Income Support (non-pensioners) was less than estimated and the average caseload was some 150,000 lower than expected. Similarly the IS for the elderly caseload was around 50,000 lower than originally forecast.

Part 2: Accuracy of benefit awards and benefit overpayments

Introduction

2.1 This part of my report sets out the results of my examination of benefit awards in 1998-99, in particular Income Support (paragraphs 2.6 to 2.23) and Jobseeker's Allowance (paragraphs 2.24 to 2.34) and the measures the Agency are taking to improve accuracy. I also examine the impact of delays to the new National Insurance Recording System (NIRS 2) on the accuracy of awards of certain benefits (paragraphs 2.35 to 2.37). The impact of error on the account and my audit opinion is set out in paragraph 2.38.

2.2 I review progress on the Benefit Integrity Project, which was intended to examine the correctness of certain awards of Disability Living Allowance (paragraphs 2.39 to 2.50). In the final section I examine the steps taken by the Agency to reduce the level of outstanding benefit overpayments (paragraphs 2.51 to 2.59).

Accuracy of benefits awards

2.3 My examination of this account is designed to obtain reasonable assurance to support my audit opinion. Much of the assurance is drawn from the scrutiny of a representative sample of benefits awards. I also take assurance from the systems of internal financial control operated by the Agency, from the Agency's quality assurance work and from the work the Agency have carried out to estimate the level of fraud on individual benefits.

2.4 My examination of transactions in 1998-99 provided assurance that on most individual benefits there was a low risk of material error arising from miscalculation or misinterpretation of benefit regulations. However, there was a material level of error on the account as a whole, mainly due to errors in Income Support and Jobseeker's Allowance.

2.5 Awards of Income Support and Jobseeker's Allowance are also significantly affected by fraud. The impact of fraud on awards and on my opinion on this account, is covered in Part 3 of my report.

The Accuracy of Income Support

2.6 Income Support is a means-tested benefit paid to claimants to bring their weekly income up to a level appropriate to their assessed needs. To qualify, claimants and their partners must be working less than 16 hours a week and must not have combined savings or capital over £8,000. Net expenditure on Income Support in 1998-99 was some £11,791 million¹.

2.7 Income Support is a highly complex benefit, with many different aspects of a claimant's circumstances affecting the correct level of benefit due in any one week. The Agency had to deal with millions of changes in circumstances in 1998-99, some of which were not reported by the claimant when they should have been. Some level of error is therefore unavoidable and, in evidence to the Committee of Public Accounts², the Agency stated that they estimated that ten per cent of payments would always be wrong due to the inherent complexities of the regulations.

2.8 I have previously noted that the Agency have established a Quality Support Team as part of their programme to improve the accuracy of benefit awards. This team visited each of the Agency districts twice in 1998-99 to examine the accuracy of a representative sample of Income Support awards, using a methodology very similar to that used by the National Audit Office.

2.9 The Quality Support Team extrapolated their results to produce an estimate of the monetary value of error in Income Support as a whole. For 1998-99, overpayments amounted to an estimated £426.1 million and underpayments amounted to £210.7 million. The gross error of £636.8 million³ represents some 5.3 per cent of expenditure on Income Support in 1998-99. The National Audit Office reviewed a representative sample of awards examined by the Quality Support Team, and based on this review I am satisfied that their work provided sufficient reliable evidence that there was a material level of error in Income Support in 1998-99.

2.10 The results of the Quality Support Team for 1998-99 indicate that the level of accuracy by volume of cases has improved from 81.7 per cent in 1997-98 to 83.4 per cent in 1998-99. However, despite the continued year on year

1 Sections E and I of the 1998-99 account, page 6

2 3rd Report, Session 1999-2000, HC 103

3 Notes to the Account, page 22

improvement in volume accuracy (see Figure 3) the Agency are still failing to meet the target of 87 per cent set by the Secretary of State and this still means that one in six cases are incorrect.

**The Agency's
Performance against the
Secretary of State's
accuracy target 1995-96 to
1998-99**

Figure 3

Year	Target (per cent)	Achieved (per cent)
1995-96	87	78.0
1996-97	87	80.8
1997-98	87	81.7
1998-99	87	83.4

2.11 Although the volume accuracy of Income Support cases continues to show an improvement in recent years, the value of individual errors has shown a significant increase in 1998-99. The estimated monetary value of error has risen from £554.6 million in 1997-98 to £636.8 million in 1998-99. In terms of expenditure on Income Support this represents an increase in the error rate from 4.5 per cent to 5.3 per cent.

2.12 As part of the Department of Social Security's strategy to reduce the level of losses of Income Support due to fraud and error, the Agency now have a target to reduce by 30 per cent the losses from fraud and error in Income Support and Jobseeker's Allowance by March 2007 with an interim target of at least a 10 per cent reduction by March 2002. This programme will concentrate on financial accuracy rather than accuracy by volume of cases, but I am concerned that it only addresses the level of overall loss to the Vote 1 Account (i.e. the level of overpayments rather than the level of financial error). The programme does not take account of any underpayments made by the Agency, which by their nature are those that have the most significant impact on claimants. However, the overall strategy is designed to take account of all these factors due to its focus on fraud and accuracy.

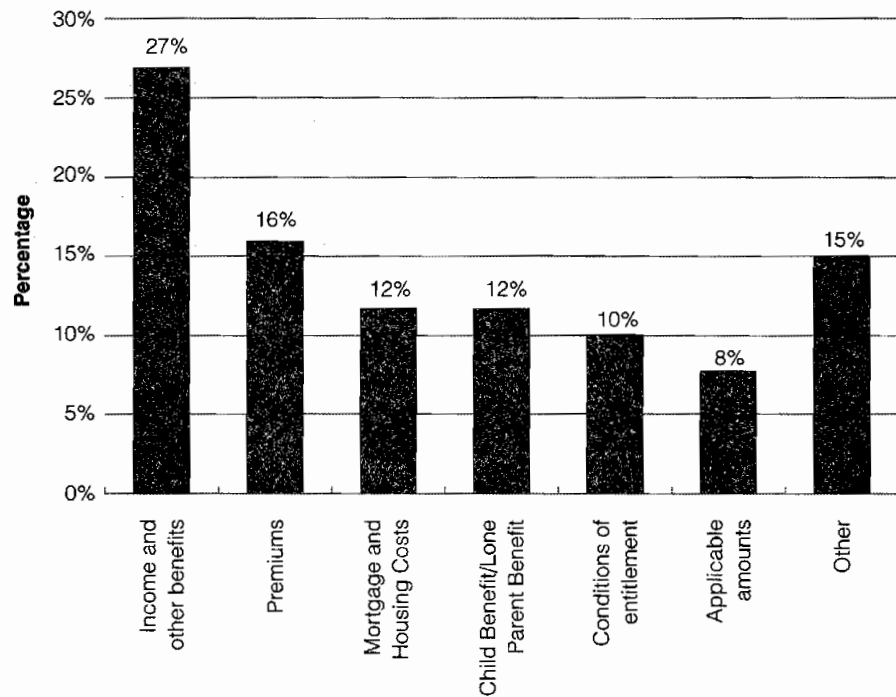
Causes of errors

2.13 The main causes of error in Income Support during the year are shown in Figure 4 below, and are similar to those identified in previous years. They reflect both the complex nature of the benefit and the many different circumstances that need to be considered when assessing entitlement to Income Support. The most common types of error were:

- *failure to take account of declared income* – for example from part-time employment;
- *incorrect treatment of premiums* – for instance failing to award premiums, payable to claimants with extra needs such as disablement or family responsibilities, when they were due to the claimant, or awarding a premium when the claimant had no entitlement to it;
- *mistakes in assessing awards of housing costs* – using incorrect mortgage balances, interest rates or failure to identify all qualifying loans;
- *incorrect assessment of other benefits received* – particularly Child Benefit and Retirement Pension, leading to mistakes in assessing the amount of Income Support due;
- *failure to satisfy the conditions of entitlement* – such as working more than 16 hours a week or having savings and capital above the specified limits; and
- *mistakes in determining applicable amounts* – for example failure to apply the correct scale rates.

Analysis of the causes of Income Support errors

Figure 4

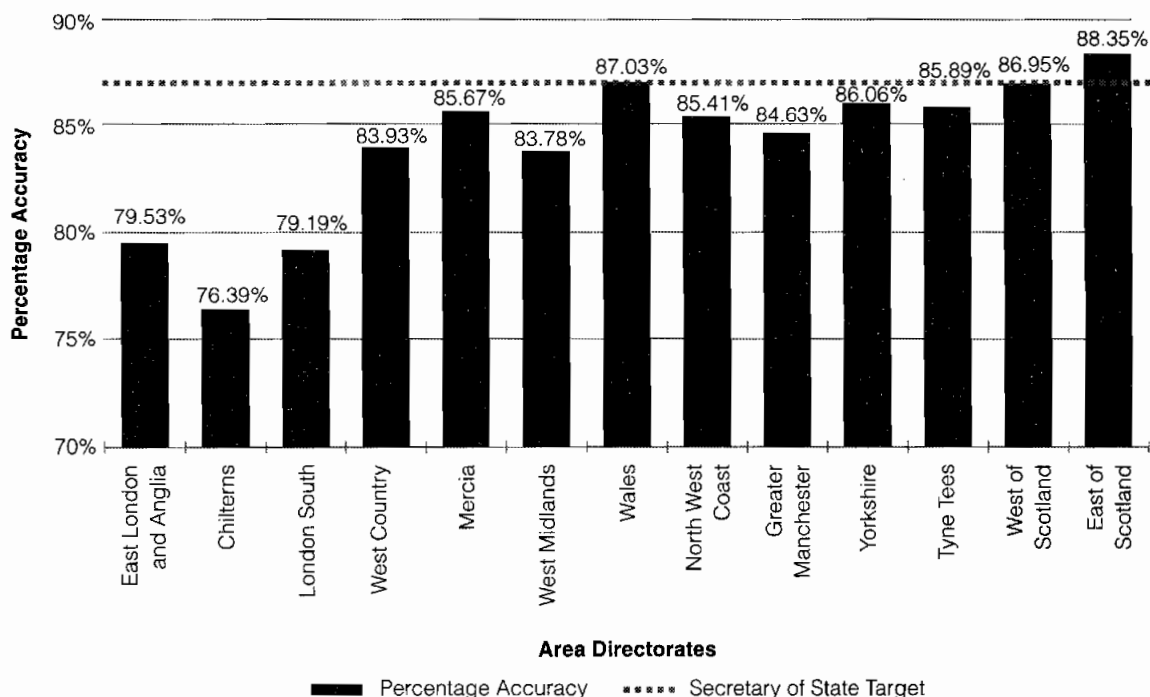


2.14 As the majority of the error types listed above are occurring at similar rates to previous years, under their new Programme Protection Strategy the Agency is setting out to investigate and target common causes of error. The Agency has, therefore, introduced a number of initiatives aimed at improving the accuracy rate and reducing the monetary value of error.

2.15 The national accuracy rate was 3.6 per cent below target, and Figure 5 below shows that some areas within the Agency actually performed at a much lower standard. Three area directorates recorded an accuracy figure of less than 80 per cent while there was a variation of almost 12 per cent between the accuracy rates of the best (88.3 per cent) and the worst (76.4 per cent) performing areas.

2.16 The lowest levels of performance are explained by the Agency as being due to increased difficulties being faced by the three area directorates in London and the South of England. These include difficulties in recruitment and retention caused by competition for quality staff and demographic factors which require more complex assessments in determining benefit entitlement (eg. Multiple Mortgage cases). In their efforts to address this problem the Agency have been developing management information systems which enable the active review of variations in performance across all areas. This information will then be used to target resources to raise the performance of poorly performing area directorates.

Figure 5 Accuracy of Individual Area Directorates in 1998-99



2.17 In October 1997, the Agency introduced new safeguards at the point of the initial claim to ensure that Income Support is only payable to those claimants who have fully met all evidence of eligibility requirements. Only specific and original forms of evidence will now be accepted and Income Support is no longer payable until the claimant has provided all information required on the claim form.

2.18 The Agency are content that these measures strengthen the initial gateway to Income Support and improve the accuracy of payments whilst recognising the needs of claimants. Although the new safeguards do not address the high level of error prevalent within longstanding Income Support claims, these are being addressed in various other ways including caseload interventions and cross checks of data held on the various benefit computer systems.

2.19 As part of their strategy to improve the accuracy of Income Support awards, the Agency have introduced a number of initiatives to help improve the skills and morale of the staff dealing with Income Support cases. These include:

- recruitment of more staff on a permanent rather than temporary or fixed term basis;
- an improved training package for new members of staff; and
- refresher training to maintain technical skills.

Future Developments

2.20 In July 1999, the Agency introduced the new system of Decision-Making and Appeals aimed at simplifying the way they process claims and appeals. The Agency believe that this system will provide a more streamlined and accessible service and will also help improve claimants' understanding of their assessments and the decisions made on their behalf. A new appeals process is also aimed at providing a more efficient service to those claimants who are dissatisfied.

2.21 One of the difficulties faced by the Agency in their attempt to improve accuracy has been the inadequacy of the current Income Support computer system, which records details of claimants and awards. The Committee of Public Accounts have on numerous occasions expressed their concerns over the poor quality of information technology systems that the Agency have for dealing with Income Support and the potential impact that this has on the prevention and

detection of error. In response, the Agency have referred to their plans to modernise service delivery including a common database across all benefits and the introduction of automated risk management processes.

2.22 In a recent report on this subject the Committee of Public Accounts concluded that a key factor in improving accuracy was further simplification of the complex Income Support regulations. However, the Department maintain their assertion that there is little scope for simplifying the regulations, given the necessity of targeting those in need.

Conclusion

2.23 This is now the eleventh consecutive year that I have qualified my opinion on this account, in whole or in part, because of the level of error in Income Support awards. While I welcome the reduction in the errors by volume of cases, the increase in the monetary value of these errors is wholly unacceptable. The Agency still have to make significant progress before they are able to provide an acceptable level of service to their claimants.

Jobseeker's Allowance Accuracy

2.24 Jobseeker's Allowance was introduced in October 1996 as a replacement for Unemployment Benefit and that part of Income Support payable to unemployed people. It is intended as a means of support whilst an unemployed person looks for work, and consists of two elements. Jobseeker's Allowance (contribution based) is paid to those claimants who have a sufficient national insurance contributions record, whilst Jobseeker's Allowance (income based) is paid to those claimants who do not, or where the contribution based element of Jobseeker's Allowance is insufficient to meet their assessed needs. Claimants must demonstrate at the initial claim stage that they are available for, and actively seeking work to be eligible for this benefit and the actions they propose to take to find work are set out in a written Jobseeker's Agreement. Their labour market activity is reviewed fortnightly when they attend at a Jobcentre.

2.25 Jobseeker's Allowance is administered jointly by the Benefits Agency and the Employment Service. The Benefits Agency are responsible for those aspects of a claim relating to assessment and payment. The Employment Service are responsible, through a national network of jobcentres, for the labour market aspects of a claim, including the actively seeking and availability for work conditions. The complexity of regulations governing awards of Jobseeker's Allowance combined with the requirement for claimants to demonstrate that they

are available for and actively seeking work make Jobseeker's Allowance a difficult and complex benefit to administer. In 1998-99 more than 2.85 million claims to Jobseeker's Allowance were made. These claims are processed by the Benefits Agency and the Employment Service working closely together to achieve improved efficiency and accuracy.

2.26 In 1998-99 some £475 million was spent on contribution based Jobseeker's Allowance, and £3,093 million on income based Jobseeker's Allowance. Expenditure on contribution based Jobseeker's Allowance is re-imbursed from the National Insurance Fund as appropriations in aid to this account leading to a risk that award of the incorrect type of Jobseeker's Allowance will affect the accuracy of both the Vote 1 account and the National Insurance Fund account.

2.27 The National Audit Office examined a two-stage representative sample of 960 Jobseeker's Allowance awards made during 1998-99 in 24 jobcentres throughout the country. The National Audit Office have continued to refine their audit methodology for the 1998-99 audit leading to a slightly more in-depth review of eligibility of sampled claims. Based on the results of this sample examination, the National Audit Office estimated that in Jobseeker's Allowance as a whole, understatements were £5.8 million and overstatements £239.5 million (Table 1).

**Jobseeker's allowance –
National Audit Office
results for 1998-99**

Table 1

	Estimated value of error in 1998-99 (£ million)	Value of error as a percentage of reported expenditure in 1998-99
Cash error overpayments	151.8	4.2
Cash error underpayments	5.8	0.2
Gross cash error	<u>157.6</u>	<u>4.4</u>
Regularity error overpayments*	<u>87.7</u>	<u>2.4</u>
Gross error	245.3	6.8

* Regularity errors relate to cases where there was no valid Jobseeker's agreement covering the audit period. Other conditions of entitlement to Jobseeker's Allowance were met in these cases.

2.28 The main causes of error found by the National Audit Office were the failure to:

- *satisfy the labour market conditions* – not being available for and actively seeking employment;

- *enter into a valid Jobseeker's Agreement* – as a condition of entitlement to benefit;
- *impose sanctions* – for example following failure to attend a job interview without good cause;
- *take account of declared income* – for example part-time earnings or occupational pensions; and
- *take account of other benefits being received by the claimant*- such as Child Benefit or Family Credit.

2.29 In addition to the errors shown in Table 1, the National Audit Office estimated that there were a further £9.3 million of non-cash errors where the wrong type of Jobseeker's Allowance was paid. Whilst these errors do not affect the amount of benefit received by claimants, they imply that the overall sum recorded in the account as contribution based Jobseeker's Allowance (and also the sum received as appropriations in aid from the National Insurance Fund) should have been £9.3 million greater. In addition, paragraphs 2.35 to 2.37 of my report refer to the difficulties experienced by the Benefits Agency in determining claimants' entitlement to contributions based benefits due to the delays in the implementation of the new National Insurance Recording System (NIRS2). The absence of up-to-date contributions information during 1998-99 meant that I was unable to confirm that the correct type of Jobseeker's Allowance had been awarded in some of the cases that I sampled.

2.30 During 1998-99 the Benefit Agency's own Quality Support Teams examined 30,000 awards of Jobseeker's Allowance of which 88 per cent were found to have been accurately decided. This compares with 85.1 per cent in 1997-98. The Quality Support Team estimate of the overall gross level of error was £243.8 million, close to the National Audit Office estimate of £245.3 million. Both sets of results support the conclusion that there was a material level of error in Jobseeker's Allowance in 1998-99.

2.31 Jobseeker's Allowance is complex to administer, and the Employment Service have the added challenge of ensuring that this benefit is delivered accurately alongside other key employment initiatives. Against this background the Employment Service have continued to seek to improve accuracy in their administration of the benefit in a number of ways, for example:

- introducing a new Annual Performance Agreement target on checking Jobseeker's Allowance labour market activity, to help ensure that Employment Service staff at Jobcentres, and claimants themselves, fulfil their respective Jobseeker's Allowance responsibilities more effectively;
- monitoring performance against this new target;
- issuing additional guidance to Jobcentre staff on issues relating to availability for work and actively seeking work; and
- reinforcing to staff the importance of having jobseeker's agreements in place.

2.32 Following the examination of claims to Jobseeker's Allowance in 1998-99, the Employment Service will be building on this programme of action. To assist with this, I have agreed with the Employment Service Chief Executive that the Employment Service and the National Audit Office will work together to further enhance the application by the Employment Service staff of the processes and systems to test and monitor individual's entitlement to Jobseeker's Allowance in order to ensure greater levels of accuracy in 1999-00 and beyond.

2.33 Similarly the Benefits Agency have also been taking steps to improve accuracy by promoting more effective working relationships with the Employment Service through the delivery of workshops for frontline staff designed to address organisational issues contributing to inaccuracy.

Conclusion

2.34 I am concerned at the level of monetary inaccuracy in Jobseeker's Allowance awards in 1998-99. However, I am satisfied that the Benefits Agency and Employment Service both recognise the need to secure improvements in accuracy and are taking urgent and comprehensive action to achieve this. It is clear that they face a significant continuing challenge in seeking to do so.

Delays to the new National Insurance Recording System

2.35 The National Insurance Recording System maintains the records of over 65 million national insurance accounts. One of the main functions of the system is to provide details of national insurance contributions to the Benefits Agency to enable awards of contributory benefits, such as Retirement Pension, Widows Benefit, Incapacity Benefit and contributions based Jobseeker's Allowance to be

assessed. Without this information such awards cannot be finalised. The Department recognised that because of the implementation of new pensions legislation in April 1997 and because the existing system was ageing, a new system was needed. Following a competitive tendering exercise a contract, under the private finance initiative, was awarded to Andersen Consulting to deliver a new system by April 1998. Andersen Consulting were unable to meet this date but the new system was introduced, on a phased basis, from July 1998.

2.36 On 12 July 1999 the Committee of Public Accounts published their report (HC 182 1998-99) which looked at the causes of the delays and the impact these delays had on the citizen including present and future benefit claimants. They concluded that as a consequence of delays to full implementation of the system, pensioners, widows and benefit claimants had suffered both uncertainty and fear. Uncertainty about their level of income and fear that they may have to repay at an unspecified time in the future any amounts that had been overpaid. A main cause of the problem was the failure to post the required number of national insurance contributions to individual contributors' accounts by 31 December 1998. This meant that the Benefits Agency were unable to finalise awards of contributory benefits payable from the National Insurance Fund and they had to make payments on an interim or emergency basis. This included the payment of benefits such as Income Support from Class XII Vote 1, pending confirmation of the correct rate of contributory benefit. Payment of benefits on an interim basis has inevitably led to both underpayments and overpayments as the level of entitlement could not be confirmed. Under these circumstances, payments made from this account may have been made in error and expenditure could be over or under stated with an opposite impact on the National Insurance Fund. The Agency are compensating individuals who have suffered as a consequence of delays in implementing the system.

2.37 The Benefits Agency aim to review all cases assessed under the interim or emergency arrangements during 1999-2000. Where the incorrect benefit or the wrong rate has been paid the Agency will take steps to provide correction either by paying arrears to claimants or, where appropriate, by following the procedures governing the treatment of overpayments. Additionally the Agency will make any adjustments necessary to correct amounts wrongly paid either from this account or the National Insurance Fund during 1999-2000. I will monitor developments during my audit of the 1998-99 National Insurance Fund and as part of my examination of next year's account.

Impact of error on the account and audit opinion

2.38 In forming my audit opinion I am required to confirm that the account is free from material misstatement. In view of the level of error and uncertainty within the account, principally within payments of Income Support and Jobseeker's Allowance, I have no alternative but to qualify my audit opinion.

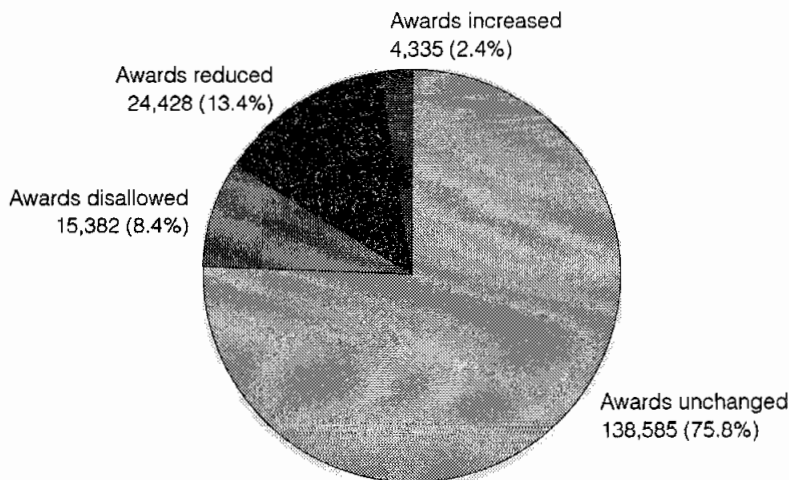
The Benefit Integrity Project

2.39 The Benefit Integrity Project began in April 1997, and was designed to review entitlement to Disability Living Allowance for those claimants receiving the higher rate mobility component of the benefit, together with the highest or middle rate care component. In my report on the 1997-98 account I noted that the Secretary of State for Social Security had informed Parliament of the Government's proposals to replace the Benefit Integrity Project with a new system in which Disability Living Allowance awards would be regularly checked to ensure that the right level of payment was being made. Following consultation the Benefit Integrity Project was officially terminated at the end of March 1999.

2.40 During the course of the Benefit Integrity Project the results were reported monthly to Parliament. The results of the entitlement review are set out in Figure 6. Savings as a result of the project have been estimated at £8 million in 1997-98 and £30 million in 1998-99.

Benefit Integrity Project results to 31 March 1999

Figure 6

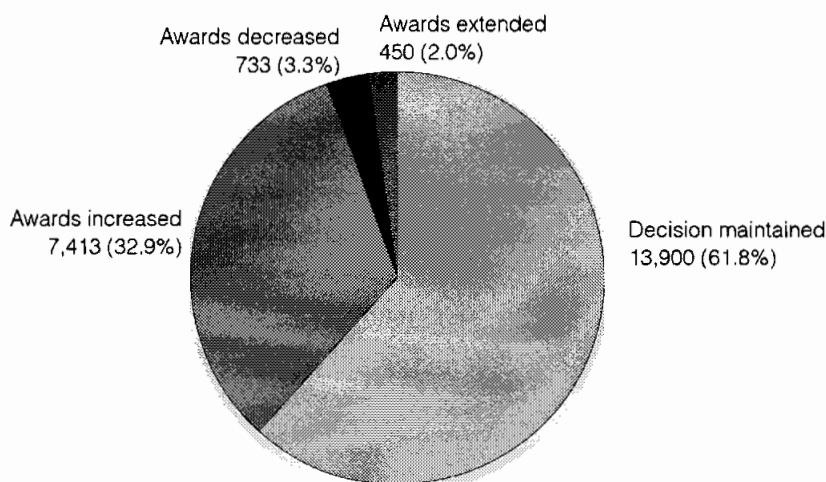


Based on an examination of 182,730 awards

2.41 In total to date 27,857 claimants have requested a review of the decision on their award of benefit made under the project. Where such a request was made, the decision of the original adjudication officer was re-examined by another adjudication officer not involved in the original decision. By 31 March 1999, 80 per cent of reviews (22,496 cases) had been completed and the results are shown in Figure 7.

**Benefit Integrity Project
results of completed
review cases at
31 March 1999**

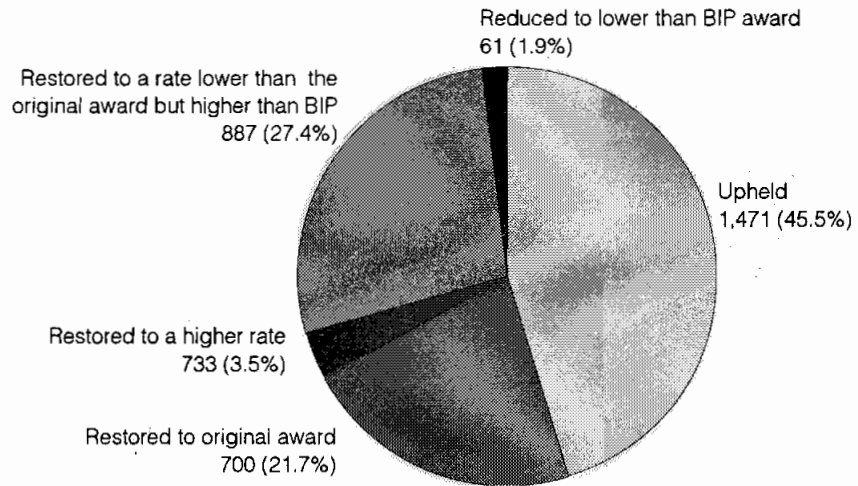
Figure 7



2.42 If a claimant was not satisfied with the outcome of a review, they were entitled to lodge a formal appeal to be considered by a tribunal independent of the Agency. At 31 March 1999, 7,865 appeals had been registered of which 3,232 had been cleared. Figure 8 (opposite) shows the results of the cases cleared:

**Benefit Integrity Project
results of cleared appeals
cases at 31 March 1999**

Figure 8



2.43 The House of Commons Social Security Select Committee examined Disability Living Allowance, including the Benefit Integrity Project. One of their recommendations regarding the Project was that claimants, who had their Disability Living Allowance award reduced or withdrawn before the introduction of the requirement for additional evidence announced in February 1998, should be contacted and offered a fresh assessment of their benefit entitlement. Although there were some legal and operational difficulties in doing this, in August 1998 the Agency began contacting claimants who had been identified as meeting the criteria for the offer of a fresh assessment. Where the claimant accepted the offer of a fresh assessment, and their award was re-instated at the original value, they would receive payment of arrears back to the date of the reduction or removal of the award.

2.44 In all the Agency contacted 962 claimants to ask if they wished a fresh assessment. 309 claimants replied requesting a review, of which 160 claimants had their award of Disability Living Allowance increased while 23 had their awards further reduced or withdrawn. Because of the decision to pay arrears back to the date of the reduction or removal of the original award it was necessary to make 124 extra-statutory payments totalling some £105,000.

2.45 Under Disability Living Allowance rules the claimants are required to inform the Agency if the circumstances of their disability changes. The Benefits Integrity Project identified a large number of cases where claimants had not notified the Agency of changed circumstances resulting in the overpayment of benefit. Initially the Agency, following usual practice, calculated the correct benefit

from the date of the review. However, on advice from the Central Adjudication Service, Adjudication Officers began to look to the date the circumstances of the claimant changed, often a much earlier date, resulting in many cases in large overpayments. Because of concerns by the Government that many claimants may not have been aware that a material change had occurred in their circumstances, and because of the distress and hardship likely to occur, the Secretary of State for Social Security, on the 25 February 1999, issued an Accounting Officer direction to the Agency to ensure that, except in cases of fraud, action would not be taken to recover any Disability Living Allowance or Attendance Allowance overpayments arising from questions of disability, including those identified under the project. A clause introduced into the Welfare Reform Bill is intended to give Parliamentary approval to this action.

Periodic enquiry process

2.46 Following the difficulties experienced with the Benefit Integrity Project, the Government wished to introduce a process that would ensure that Disability Living Allowance claimants were receiving the correct amount of benefit, but based on an approach that was fairer and more sensitive. To achieve this the Department developed the periodic enquiry process in close consultation with organisations of and for disabled people.

2.47 The periodic enquiry process was introduced in June 1999. Enquiries are being made by post and by visit to the claimant's home where they are assisted in the completion of the enquiry form. The completed enquiry form will allow the Department to identify the need for any further evidence and to review the claimant's entitlement if appropriate. This new process does not remove the responsibility from the claimant to inform the Department of any change to his or her condition that may effect entitlement.

2.48 Certain categories of Disability Living Allowance claimants will be exempt from the periodic enquiry process because of the nature and severity of their disability. These include: any cases that were excluded from the Benefit Integrity Project; any cases with a fixed period of award due to expire within the next 3 years; claimants who have had their case reviewed or adjudicated on within the last 12 months; and any cases of the terminally ill as defined by the Department. Claimants who were subject to the Benefit Integrity Project will also be excluded. Cases involving claimants with mental health problems, and cases made on behalf of children will be excluded until such time when procedures have been fully discussed and agreed with organisations of and for the disabled community and staff have been given the appropriate specialist training.

2.49 The first phase of the periodic enquiry process involves untargeted postal and visit enquiries, selected at random and designed to learn the maximum possible about the new approach prior to wider implementation. The Department intends to monitor closely the new process, and to conduct a full evaluation after six months of operation. The findings will be used to start improving the process to make it more sensitive to the circumstances of the individual. Eventually each new award of Disability Living Allowance and Attendance Allowance will be reconsidered according to a timetable set when entitlement commences. The frequency of review will depend on factors that influence the likelihood of change in the claimant's condition. Factors may include the type of impairment, the age at date of onset, prognosis etc. Evaluation of the periodic enquiry will help to inform the development of a system for allocating the most appropriate review date.

2.50 The first six months of periodic enquiry will be completed at the end of December 1999, at which time approximately 13,000 cases should have been considered. The findings from the evaluation of this initial phase are expected to be available in March 2000. I will monitor progress with the introduction of these new procedures as part of my audit of the 1999-2000 account.

Benefit overpayments

2.51 One consequence of inaccurate benefit awards is that claimants receive the wrong amount of benefit. Where underpayments are discovered, the Agency make good the difference to the claimant. Where an overpayment arises, the Agency would normally seek recovery of the sum if the overpayment was due to claimant error or fraud, or they would write off the sum if the overpayment was due to error by the Agency. In my Report on the 1997-98 account I noted the concerted action the Agency had been taking to reduce the backlog of potential benefit overpayments which, at 31 March 1997, stood at 285,000 cases. By 31 March 1998 the Agency had succeeded in reducing the number of cases awaiting calculation to 148,000 (a considerable improvement on the target of 165,000) and I am pleased to note that continued efforts throughout 1998-99 have resulted in a further reduction to 84,000 by 31 March 1999. This reduces the number of cases to a level that the Agency consider to be the normal monthly turnover of cases and, in effect, removes the backlog.

2.52 As part of their drive to clear the backlog in 1997-98 the Agency launched an initiative to identify and write off uncalculated recoverable debts over eighteen months old, and all uncalculated non-recoverable debts. This initiative is known as the Easement Package. The Agency's view was that these backlog cases, where it would have been difficult to make any recovery, were diverting effort from collecting newer, more viable, debt.

2.53 In all during 1998-99 386,000 cases were written off as a result of the Easement Package. The estimated value of the write-offs was £89.6 million of which £55.7 million (62.2 per cent) was in respect of Income Support. A further 38,000 cases totalling an estimated £9.6 million were also written off in respect of benefits charged to the National Insurance Fund account.

2.54 In my Report on the 1997-98 accounts I noted that the Department were developing a new computerised Debt Accounting and Management System (DAMS), based on commercially available software. After some development work had taken place it became clear that the commercial software could not be adapted to deal with the complexity of the rules covering Social Security debt. At that point the Department decided to abandon the DAMS project.

2.55 It was not possible for the Department to immediately implement a long-term solution to the failure of the DAMS project, and so in the short term they have resorted to a contingency plan. The contingency plan has two phases, the first of which required that the Department ensure that the system in current use, known as OPREC, was Year 2000 compliant. This was achieved by the end of October 1999 in accordance with the agreed timetable. Data from the Programme Accounting Computer System (PACS) is also being used to facilitate debt recovery action. The Department intend to introduce more accounting controls into OPREC to go live no later than March 2000.

2.56 Phase two of the contingency plan relates to a long-term solution of the debt problem. While working to improve the situation in phase one, the Department plan to have considered preliminary options for the future by December 1999, with a full study of the proposed solutions completed by March 2000.

2.57 The easement package was due to be in operation only for as long as it took to introduce the new computerised system (DAMS). Because this system will not now be introduced the Treasury approved the continuation of the Easement Package, with a review to be carried out early in 2001-2002. For 1999-2000 the Department intend to focus the Easement Package on newly arising non-recoverable debt.

2.58 The Agency recovered £153.1 million of overpayments during 1998-99, and wrote off a further £25.8 million of overpayments. Despite this, the total value of outstanding overpayments on benefit systems rose from £597 million at 31 March 1998 to £799 million at 31 March 1999, an increase of £202 million. The Agency attribute the main reason for this to their success in improving the management and control of debt processes (which reduced the number of

outstanding cases by 201,000 between March 1997 and March 1999) and the drive to bear down on abuse and incorrectness. The additional flow of cases identified through the programme protection initiative is likely to continue throughout 1999-2000.

Conclusion

2.59 The Agency have achieved their target of effectively eliminating the backlog of benefit overpayments by 31 March 1999, principally through the continued operation of the Easement Package. I welcome the Agency's greater commitment to the identification of overpayments and dealing with them on a more timely basis. However, I remain concerned that the value of outstanding overpayments on benefit systems awaiting recovery or write-off action rose to £799 million at 31 March 1999. The Agency need to focus their efforts on reducing this sum.

Part 3: Benefit Fraud

Introduction

3.1 This part of my report examines the results of the Agency's activities to combat fraud (paragraphs 3.2 to 3.7) and their work to estimate the level of fraud on individual benefits (paragraphs 3.8 to 3.11). I also cover losses due to fraudulent encashment of instruments of payment and the impact of fraud on my audit opinion (paragraphs 3.12 to 3.13).

The Benefits Agency's Security Strategy and Security and Control Programme

3.2 In July 1995 the Secretary of State announced a security strategy to combat fraud in the benefit system. Under the strategy the Agency planned, over a five year period (1995-96 to 1999-2000), to put new emphasis on preventing fraud happening in the first place, and establishing claimants' entitlement correctly at the outset, whilst continuing to develop and improve methods of detecting and investigating fraud and error.

3.3 This security strategy was supported by a Security and Control Programme. The Programme was comprised of a number of separate but inter-related projects designed to achieve a demonstrable and sustained reduction in the levels of fraud and error over the five years. It was funded on an invest-to-save basis and the Agency aimed to secure a payback of weekly benefit savings of over £6 billion over the five years of the Programme for an investment of £1.25 billion. In the four years to 1998-99 the Programme produced weekly benefit savings of £3.636 billion at a total cost of £0.78 billion. Total benefit savings in 1998-99 from all the activities carried out by the Agency amounted to £1,645 million against the overall Secretary of State target for the year of £2,300 million.

Savings achieved by the Security and Control Programme

3.4 In my reports in previous years I looked at the achievement of savings from the activities of the Security and Control Programme, and commented on the comprehensive validation programme undertaken each year by the Agency and their Audit division leading to significant reductions in reported savings. In 1998-99, the Programme reported final weekly benefit savings of £1,141 million – some £640 million (36 per cent) short of the target of £1,781 million.

3.5 Performance figures across all the major contributors to the Security and Control Programme target fell considerably in 1998/99. The Agency told me that a number of specific factors led to a shortfall in the year end outturn. The major ones being evidence requirements and other gateway controls, the radically changing environment of fraud and security work and a number of operational difficulties that the field had to cope with (for example staff shortages and the redeployment of staff). Areas showed a great deal of commitment in their preparations for the move to the new Programme Protection regime which impacted on their ability to achieve savings against the Security and Control Programme target. The Agency also believes that the tightening of gateway controls has started to have a positive impact on the amount of fraud and inaccuracy creeping into the system. In addition, the original savings estimates included projected reductions in instruments of payments loss following the introduction of the Benefit Payment Card. As mentioned elsewhere in this report the Benefit Payment Card element of the wider Horizon programme was cancelled.

3.6 As in previous years, the final published savings figure for 1998-99 was arrived at following a significant reduction on the initial amount claimed resulting from an extensive internal validation programme. The initial figure was reduced by some £525 million (31.5 per cent) as a consequence of validation. This was the largest overstatement from the four years of the Programme, but it does suggest that the validation programme was conducted with integrity and robustly. In addition, as in previous years, technical difficulties meant that the Agency could not validate a small percentage of claimed savings (6.6% in 1998-99). Figure 9 shows, from 1995-96 to 1998-99, the initial savings figures compared with the actual savings figures following validation.

Security and Control Programme – savings target and pre-validation savings against adjusted savings 1995-96 to 1998-99	Figure 9				
	1995-96 £ million	1996-97 £ million	1997-98 £ million	1998-99 £ million	Total £ million
Savings Target	403	786	1,412	1,781	4,382
Pre-validation Savings	507	997	1,503	1,666	4,673
Adjusted Savings	454	828	1,213	1,141	3,636

3.7 Forecast savings from the Security and Control Programme reduced as the level of activities to counter fraud increased. In 1998-99 the strategy for tackling fraud and error set out in the command paper “A new contract for welfare: SAFEGUARDING SOCIAL SECURITY” which switched the emphasis from chasing fraud savings to preventing fraud entering the system. In the Agency’s view this demonstrated the ineffectiveness of measuring performance based solely on

detection of fraud. The Security and Control Programme was curtailed at the end of March 1999 to be replaced with a new Programme Protection Strategy which began on 1 April 1999.

Estimates of the level of benefit fraud

3.8 Since the mid-1990s the Agency have used a series of benefit reviews to provide Parliament with information on the level of incorrectness, including fraud, in individual benefits. I have previously reported the results of benefit reviews announced in the four years 1994-95 to 1997-98. The results of these reviews are summarised in Table 3.

Results of benefit reviews announced from 1994-95 to 1997-98

Table 3

Benefit	Date results announced	Claims where fraud confirmed or highly suspected (%)	Estimated annual loss due to fraud (£ million)
Income Support (1st Review)	July 1995	9.7	1,409
Invalid Care Allowance	July 1996	6.5	37
Disability Living Allowance	February 1997	12.2(*)	499(*)
Income Support (2nd Review)	July 1997	11.1	1,774
Child Benefit	July 1998	5.4	184
Jobseeker's Allowance (Contributory) (**)	October 1998	9.3	47

(*) These figures reflect aggregated estimates of fraud and high suspicion of fraud, but the Agency have emphasised that their report on the benefit review of Disability Living Allowance showed fraud in 1.5 per cent of cases resulting in an estimated annual loss of £78 million. A further 10.7 per cent of cases were strongly suspected of being fraudulent with an estimated annual loss of £421 million. The Agency considered that there were particular difficulties in estimating fraud in Disability Living Allowance because entitlement depends on care and mobility needs which are not easily assessed other than through the formal adjudication process.

(**) Refunded by the National Insurance Fund

3.9 There have been no further full national benefit reviews since my last report while the Agency have focused effort and resources on initiating continuous measurement of those benefits incurring greatest programme spend and potential for loss through fraud, namely Income Support and Jobseeker's Allowance.

Although the assessment of how far benefits might be materially affected by fraud and error is incomplete, the Agency is committed to reviewing all major benefits recorded on this account unless there are strong indications that a full review would not provide value for money

Area Benefit Reviews

3.10 In my 1997-98 report I explained how the Agency had initiated a series of area benefit reviews from April 1997 to estimate the level of incorrectness, including fraud, in Income Support and Jobseeker's Allowance (income based). Following a brief pilot exercise, formal measurement of results began in September 1997. On 27 November 1998, the Government Statistical Service published some interim findings from these reviews that estimated a combined annual loss to fraud of £1.53 billion: around half through cases of confirmed fraud, and half through high suspicion of fraud. High suspicion of fraud arises where investigations fall short of obtaining absolute proof to establish the fraud, perhaps through confession or third party evidence. In assessing the potential losses to public expenditure the Agency have felt it essential that these unproven but very likely frauds were not omitted. In total fraud plus high suspicion of fraud represented some 9.8 per cent of expenditure on the two benefits during 1997-98. At the time I indicated that the Government Statistical Service report had prudently made it clear that these interim results needed to be viewed with some caution.

3.11 I also said in my report on the 1997-98 accounts that the Agency expected to produce a collation of the first full year's results from Area Benefit Reviews in early 1999. Circumstances have changed in the intervening period in that Area Benefit Review results will in future form one part of the measurement of the Department's performance on fraud and error under the Public Service Agreement – the other part being provided by Quality Support figures on official error. Due to the complexities involved in merging these two sources of information, publication of the Area Review results has had to be delayed.

Losses due to fraudulent encashment of instruments of payment

3.12 The Agency have estimated losses arising from the fraudulent encashment of order books and girocheques for benefit expenditure as a whole, which amounts to £102.6million. Statistical evidence is not available to determine losses for individual benefits paid from this account, but if the allocation of the estimated loss was calculated in proportion to benefit expenditure the loss to this account would be of the order of up to £46 million. The Benefits Agency believe, however, that the greater loss would occur on Income Support and income based Jobseeker's

Allowance due to the greater risk of instrument of payment fraud on these benefits compared with benefits paid from the National Insurance Fund. On this basis, the loss to this account would be greater than £46 million.

Impact of fraud on the account and audit opinion

3.13 In forming my audit opinion I am required to confirm that the account is free from material misstatement, whether caused by error, fraud or other irregularity. In view of the level of benefit fraud and the fraudulent encashment of instruments of payment disclosed by the Benefits Agency's work I have no alternative but to qualify my audit opinion on this account.

Part 4: New Initiatives to tackle fraud and error

4.1 Tackling fraud and abuse remains one of the Department's top priorities, and this was re-iterated in the Government Green Paper "Beating Fraud is Everyone's Business (Cm 4012) published in July 1998. Following a consultation period a revised strategy was published in the Government White Paper "A new contract for welfare: SAFEGUARDING SOCIAL SECURITY" (Cm 4276) in March 1999. This recognised the inadequacies of the previous security strategy and introduced a new performance management regime. This regime supports an overall target to reduce by 30 per cent benefit losses from fraud and errors in Income Support and Jobseeker's Allowance by March 2007, with at least a 10 per cent reduction by March 2002.

The Programme Protection Strategy

4.2 The Programme Protection Strategy is the Department's response to the Secretary of State's concerns that far too much was being lost through fraud and error, and that there was a need for a consistent "end to end" approach to ensure secure and accurate benefit administration. He also felt that members of staff were set unhelpful targets and that information collected from claimants was not always used intelligently. As a result the existing security strategy was curtailed at 31 March 1999.

4.3 The replacement strategy introduces some significant changes. Fraud will be viewed differently (excluding high suspicion), and fraud and error will be looked at as a combined measure of the loss to public funds. There will be a single target for reducing fraud and error (30 per cent by 2007) and a new process to measure achievement against this target. In addition much more responsibility will be devolved from the centre to the Agency's 13 Area Directorates. The Area Directorates will produce Programme Protection Plans which will outline the amount of resources invested, the activities to be delivered and the anticipated effect of these actions on programme loss. Underpinning the outcome target and the plans are a series of progress indicators which provide performance trends and information on whether resources are being targeted effectively.

4.4 Funding of the Programme Protection Strategy will initially be through the Public Service Agreement 1999-2000 between H M Treasury and the Department of Social Security (Cm 4315). Allocations to Area Directorates to fund their Programme Protection Plans for 1999-2000 amount to some £277 million.

4.5 It is too early to assess the benefits of the Programme Protection Strategy. I will monitor the progress of the new Strategy over the forthcoming year and provide comment where appropriate in my report on the 1999-2000 accounts.

Other initiatives to combat fraud and error

4.6 In addition to the measures within the Programme Protection Strategy there are a number of initiatives being taken forward by the Department and the Agency designed to assist business change and improve benefit delivery. These complement the Agency's strategic approach to combating benefit fraud and are in various stages of development.

Information Technology

4.7 The Personal Details Computer System (PDCS) is being developed to provide a single database for a common set of personal details for all benefit claimants. The PDCS is now in use for Income Support and Jobseeker's Allowance and other benefits within this account and the intention is to extend it to cover all benefits in the future.

Data sharing and data matching

4.8 The Agency have been working with local authorities to implement improvements in the way information is shared using automated links. This includes the installation of Remote Access Terminals in local authorities allowing them access to Agency data. In addition, under powers within the 1997 Fraud Act, data matching will be extended where practicable to include information held by Inland Revenue, Customs and Excise, Royal Mail and agencies of the Home Office.

Payment Method

4.9 A Method of Payments Strategy is under development which aims to move towards full automation of all payments and to develop better ways of protecting current paper based methods of payment during the transitional period. In addition the use of bar code scanners is being extended to more parts of the country as a means of addressing the fraudulent encashment of order books.

4.10 Since my last report *The Horizon Programme* to automate the payment of benefits through post offices was subject to a Treasury review which concluded that it should be reconfigured to cancel the Benefit Payment Card element of the project. The Benefit Payment Card was designed initially as a better and more secure way of delivering benefits to customers. The Agency are considering what changes they need to make to existing systems in the light of this decision.

4.11 I shall continue to monitor the Agency's initiatives to combat fraud and error in the benefits system, and to report progress in my reports on future years' accounts.

John Bourn
Comptroller and Auditor General

13 January 2000

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

Class XII
Department of Social Security

Statement of Accounting Officers' responsibilities

Section 22 of the Exchequer and Audit Departments Act 1866 requires all departments to prepare accounts of the appropriation of supply grants comprised in each year's Appropriation Act. The Treasury appoint an Accounting Officer for each Vote and determine the form of the accounts. The accounts are prepared on a cash basis and must properly present the expenditure and receipts for each Vote in the financial year. The relevant responsibilities of Accounting Officers, including their responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

Class XII: Department

Page	No. of Vote	Service	Estimated Gross Expenditure	Authorised Appropriations in Aid	Supply Grant
			£000	£000	£000
6	1	Central government administered social security benefits and other payments	39,085,255	897,797	38,187,458
28	2	Housing benefit subsidies, council tax benefit subsidies and administration, payments into the National Insurance Fund and the Social Fund and other grants	10,325,679	3,897	10,321,782
47	3	Department of Social Security: administration	3,383,641	1,339,616	2,044,025
Total			52,794,575	2,241,310	50,553,265

of Social Security

Gross Expenditure	Appropriations in Aid applied	Net Expenditure	Gross Expenditure compared with Estimate: Saving or (Excess)	Deficiency of Appropriations in Aid	Amount to be surrendered	Extra Receipts payable to Consolidated Fund	No. of Vote
£000	£000	£000	£000	£000	£000	£000	
37,331,149	818,643	36,512,506	1,754,106	79,154	1,674,952	485	1
9,493,562	3,897	9,489,665	832,117	—	832,117	85,803	2
3,291,387	1,339,138	1,952,249	92,254	478	91,776	22,742	3
50,116,098	2,161,678	47,954,420	2,678,477	79,632		109,030	
Total amount to be surrendered					2,598,845		
Actual total amount to be surrendered					£2,598,845,067.23		

Central Government Administered Social Security Benefits and Other Payments

See also Report of the Comptroller and Auditor General

Summary of Outturn, and the Account of the sum expended, in the year ended 31 March 1999, compared with the sum granted for expenditure by the Department of Social Security on non contributory retirement pensions; Christmas bonus payments to pensioners; pensions etc., for disablement or death arising out of war, or service in the armed forces after 2 September 1939 and sundry other services, including pension and other payments in respect of service in the armed forces at other times; attendance allowance; invalid care allowance; severe disablement allowance; disability living allowance; disability working allowance; pensions, gratuities and sundry allowances for disablement and specified deaths arising from industrial causes; income support; payments of spousal and child maintenance; child benefit; family credit; vaccine damage payment scheme; earnings top up pilot; jobseeker's allowance (contribution based), jobseeker's allowance (income based), back to work bonus; and expenditure incurred as part of the Welfare to Work initiative.

Summary of Outturn

Section	Estimated			Actual		
	Gross Expenditure	Appropriations in aid	Net Expenditure	Gross Expenditure	Appropriations in aid	Net Expenditure
	£000	£000	£000	£000	£000	£000
Department of Social Security						
A	44,766	37	44,729	44,877	31	44,846
B	1,260,532	1,500	1,259,032	1,264,380	835	1,263,545
C	10,605,518	40,115	10,565,403	9,854,311	42,777	9,811,534
D	817,913	28,060	789,853	790,476	29,563	760,913
E	3,787,578	11,380	3,776,198	3,629,066	10,241	3,618,825
F	9,912,072	2,401	9,909,671	9,726,982	3,054	9,723,928
G	245	—	245	—	—	—
H	28,254	—	28,254	32,392	—	32,392
I	8,892,555	233,770	8,658,785	8,419,627	247,762	8,171,865
J	3,153,113	9,675	3,143,438	3,092,997	9,548	3,083,449
K	570,859	570,859	—	474,832	474,832	—
L	11,850	—	11,850	1,209	—	1,209
Total	39,085,255	897,797	38,187,458	37,331,149	818,643	36,512,506

Summary of Outturn—continued

Explanation of the Causes of Variation between Estimated and Realised receipts

- BZ** Due to the unpredictable nature of these receipts, it is difficult to estimate recoveries accurately. The estimate for 1998–99 was based on four months actual receipts. Reduced receipts in the latter part of the year resulted in actual receipts being lower than estimated.
- EZ** Receipts in respect of Income Support (IS) are only available as a total amount and therefore need to be split between IS Elderly and IS Under Age 60 for the purpose of accounting and estimating. This, together with the difficulty in estimating receipts, has resulted in an overestimation for 1998–99. The estimate for 1998–99 was based upon four months actual receipts. Reduced receipts in the latter part of the year resulted in actual receipts being lower than estimated.
- FZ** Due to the unpredictable nature of these receipts, it is difficult to estimate recoveries accurately. The estimate for 1998–99 was based on four months actual receipts. The increased level of receipts realised in the latter half of the year resulted in actual receipts being higher than estimated.
- KZ** The estimated receipts for 1998–99 were based upon the estimated expenditure levels for Jobseeker's Allowance (Contribution Based). The estimate of the average level of unemployment being 68,000 higher than actual, reduced the level of contributory expenditure and the corresponding receipts needed from the National Insurance Fund to reimburse Vote 1 for these payments.

Account

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Pension Benefits				
A4 Grants and transfers: current	44,766	44,877	—	111
War Pensions				
B2 Direct expenditure other: current	10,000	9,291	709	—
B4 Grants and transfers: current	1,250,532	1,255,089	—	4,557
Disability Benefits				
C4 Grants and transfers: current	10,605,518	9,854,311	751,207	—
Industrial Injury Benefits				
D4 Grants and transfers: current	817,913	790,476	27,437	—
Income Support for the Elderly				
E4 Grants and transfers: current	3,787,578	3,629,066	158,512	—
Family Benefits				
F4 Grants and transfers: current	9,912,072	9,726,982	185,090	—
Vaccine Damage Payment				
G4 Grants and transfers: current	245	—	245	—
Earnings Top Up Pilot				
H4 Grants and transfers: current	28,254	32,392	—	4,138
Income Support (under 60 years of age)				
I4 Grants and transfers: current	8,892,555	8,419,627	472,928	—
Jobseeker's Allowance (Income Based)				
J4 Grants and transfers: current	3,153,113	3,092,997	60,116	—

Explanation of the Causes of Variation between Expenditure and Grant.

H4 The proportion of Earnings Top up recipients, who renewed their claims more than once, was higher than forecast. This caused the overspend of £4 million.

Account—continued

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Jobseeker's Allowance (Contribution Based)				
K4 Grants and transfers: current	570,859	474,832	96,027	—
Welfare to Work				
L4 Grants and transfers: current	11,850	1,209	10,641	—
Gross Total	£000			
Original	39,145,725			
Spring Supplementary	(60,470)			
	39,085,255	37,331,149	1,762,912	8,806
	Estimated	Realised	Surplus of Gross Estimate over Expenditure	
	£000	£000	1,754,106	
Deduct				
Z Appropriations in Aid				
Original	958,268			
Spring Supplementary	(60,471)			
	897,797	818,643		
				Deficiency of Appropriations in Aid Realised
				79,154
Net Total				
Original	38,187,457			Net Surplus
Spring Supplementary	1			1,674,952
	38,187,458	36,512,506		

Actual surplus to be surrendered **£1,674,951,812.43**

Explanation of the Causes of Variation between Expenditure and Grant.

- K4 Jobseeker's Allowance (Contribution Based) was £96 million less than estimated for 1998-99. This was, in the main, due to the estimate of the average level of unemployment being 68,000 higher than actual.
- L4 Of the £11.85 million included in Class XII Vote 1 in respect of Welfare to Work, £8.25 million relates to New Deal for Lone Parents for which the majority user, in terms of expenditure against the estimate, is the Employment Service. The anticipated expenditure for Welfare to Work did not materialise due to slower take up than expected.

Explanatory Notes on Expenditure and Receipts

	Current £000
1 Expenditure items	
 <i>Section A: Pension Benefits</i>	
Non Contributory Retirement Pensions (Note A1)	28,810
Christmas Bonus payments to pensioners (Note A2)	16,067
Total	<u>44,877</u>
<i>Note A1: Payable to those over 80 who are not entitled to National Insurance Retirement Pension or who have only limited entitlement to it.</i>	
<i>Note A2: Payable to those who qualify for the £10 Christmas Bonus on the basis of non contributory benefits.</i>	
 <i>Section B: War Pensions</i>	
	1,264,380
<i>Note B: Disablement pensions, gratuities, allowances and grants, paid in respect of disablement arising out of war or service in the armed forces. Pensions, gratuities and allowances paid to war widows and dependants. War Pension expenditure is divided in the Account into two main areas, the first being payments made to disabled, widows or dependants arising out of war or service in the armed forces and the second being payments relating to treatment expenses for those disabled.</i>	
 <i>Section C: Disability Benefits</i>	
Attendance Allowance (Note C1)	2,685,681
Invalid Care Allowance (Note C2)	785,710
Severe Disablement Allowance (Note C3)	987,206
Disability Living Allowance (Note C4)	5,346,549
Disability Working Allowance (Note C5)	49,165
Total	<u>9,854,311</u>
 <i>Note C1: Payable to those over pension age who are severely disabled physically or mentally and who are either terminally ill or who have been in need of continued care or supervision for at least six months.</i>	
<i>Note C2: Payable to those of working age who give up the opportunity of full-time work in order to look after someone receiving either Attendance Allowance, Disability Living Allowance or Constant Attendance Allowance.</i>	
<i>Note C3: Payable to those who are incapable of work and 80 per cent disabled for at least 28 weeks unless qualifying for Incapacity Benefit at a higher rate.</i>	
<i>Note C4: Payable to those who are disabled before the age of 65 for help with the extra costs which arise from personal care and mobility needs.</i>	
<i>Note C5: An income-related benefit payable to those who are working at least 16 hours a week and have a physical or mental disability which puts them at a disadvantage in getting a job.</i>	

Explanatory Notes on Expenditure and Receipts—continued

	Current £000
1 Expenditure items—continued	
Section D: Industrial Injury Benefits	790,476
<i>Note D: Disablement pensions, gratuities and allowances paid for disablement or death arising from an industrial accident or prescribed industrial disease.</i>	
Section E: Income Support for the Elderly	3,629,066
<i>Note E: Payable to those of retirement age to bring their income up to a certain weekly level related to their circumstances and responsibilities.</i>	
Section F: Family Benefits	
Child Benefit (Note F1)	7,297,212
Family Credit (Note F2)	<u>2,429,770</u>
Total	<u>9,726,982</u>
 <i>Note F1: Payable to persons responsible for children under 19 while the child remains in full-time non-advanced education. It is also payable for children aged 16 and 17 who have just left school and are waiting for a job or youth training place.</i>	
<i>Note F2: Payable to a low income family with at least one child, where the wage earner is working 16 hours a week or more.</i>	
Section G: Vaccine Damage Payment	—
<i>Note G: Lump sum payments to persons found to be severely disabled as a result of vaccination.</i>	
Section H: Earnings Top Up Pilot	32,392
<i>Note H: Earnings Top Up is an in-work benefit similar to Family Credit, but paid to single people and couples without dependant children. It has been introduced as a pilot scheme from October 1996 initially for a period of three years.</i>	
Section I: Income Support (under 60 years of age)	8,419,627
<i>Note I: Payable to those aged 18 or over (payable in certain prescribed circumstances to those aged 16 and 17), who are working less than 16 hours a week and who are not in full-time education, to bring their income up to a certain weekly level relating to their circumstances and responsibilities. Recipients of Income Support who are under 60 may also be eligible to claim Back to Work Bonus.</i>	

Explanatory Notes on Expenditure and Receipts—continued

	Current
1 Expenditure items—continued	£000
Section J: Jobseeker's Allowance (Income Based)	3,092,997
<i>Note J: Payable to those aged 18 or over (except in special circumstances) and under pension age who have income and capital below prescribed limits. It is a means of support while an unemployed person looks for work. Recipients of Jobseeker's Allowance (Income Based) may also be eligible to claim Back to Work Bonus.</i>	
Section K: Jobseeker's Allowance (Contribution Based)	474,832
<i>Note K: Payable to those aged 18 or over (except in special circumstances) and under pension age who have an adequate national insurance contributions record. It is a means of support while an unemployed person looks for work. Recipients of Jobseeker's Allowance (Contribution Based) may also be eligible to claim Back to Work Bonus.</i>	
Section L: Welfare to Work	1,209
<i>Note L: Payable to encourage families and young people into work.</i>	
2 Receipts payable to Consolidated Fund	Realised
	£000
Receipts of classes not authorised to be used as Appropriations in Aid	485
Actual sum paid separately to the Consolidated Fund	<u>£485,227.47</u>
Details of Receipts	Current
(i) Receipts of classes authorised to be used as Appropriations in Aid	£000
Pension Benefits	31
(a) Refunds of overpayments of Non Contributory Retirement Pension and Christmas Bonus.	
War Pensions	835
(b) Refunds of overpayments of War Pensions.	
Disability Benefits	42,777
(c) Refunds of overpayments of Attendance Allowance, Invalid Care Allowance, Severe Disablement Allowance, Disability Working Allowance, Disability Living Allowance and Mobility Allowance; and recoveries from damages paid to recipients of Attendance Allowance, Severe Disablement Allowance, Disability Working Allowance, Disability Living Allowance and Mobility Allowance.	
Industrial Injury Benefits	29,563
(d) Refunds of overpayments of Industrial Injury Benefits and recoveries from damages paid to recipients of Industrial Injury Benefits.	
Income Support for the Elderly	10,241
(e) Refunds of overpayments of Income Support; recoveries from arrears of Social Security benefits; recoveries from damages paid to recipients of Income Support; recoveries of emergency payments and payments on return to work after a trade dispute.	

Explanatory Notes on Expenditure and Receipts—continued

	Current £000
Details of Receipts—continued	
Family Benefits	3,054
(f) Refunds of overpayments of Child Benefit, One Parent Benefit, and Family Credit and recoveries from damages paid to recipients of Family Credit.	
Income Support (under 60 years of age)	247,762
(i) Recoveries from arrears of Social Security benefits, recoveries from damages paid to recipients of Income Support, refunds of overpayments of Income Support, refunds from the employment bodies for Income Support paid to certain trainees, recoveries of emergency payments, receipts from the Child Support Agency and payments by liable relatives.	
Jobseeker's Allowance (Income Based)	9,548
(j) Refunds of overpayments of Jobseeker's Allowance (Income Based) and Back to Work Bonus; recoveries from damages paid to recipients of Jobseeker's Allowance (Income Based), and refunds from the employment bodies for Jobseeker's Allowance (Income Based) paid to certain trainees.	
Jobseeker's Allowance (Contribution Based)	474,832
(k) Refunds of overpayments of Jobseeker's Allowance (Contribution Based) and recoveries from damages paid to recipients of Jobseeker's Allowance (Contribution Based). Repayment of Jobseeker's Allowance (Contribution Based) from the National Insurance Fund.	
Total	<u>818,643</u>
	Current £000
(ii) Receipts of other classes	
Lapsed payable orders	476
Unallocated receipts	9
Total	<u>485</u>

Notes

Basis of Charges to Subheads

The Department of Social Security administers a range of social security benefits, financed either from the National Insurance Fund or from the Consolidated Fund through Class XII, Vote 1. Where an individual is in receipt of more than one benefit, it is the Department's policy to combine amounts due into a single payment wherever practicable. Benefits are paid by girocheque, payable order, credit transfer or the Social Security Benefit Payment Card but mainly through order books encashable at a post office. It is not practicable for the Department of Social Security to account precisely for all expenditure on individual benefits at the time payable instruments are encashed. Instead, they rely on statements from Post Office Counters Ltd. of all separate and combined order book payments falling within nine accounting groups allocated by Post Office Counters Ltd. The Department retains details of benefits issued on the vast majority of payments, including combined payments, by means of an accounting interface with each of the benefit computer systems, called the Programme Accounting Computer System (PACS). Apportionment of benefit expenditure has been achieved in this Account using PACS and other information. In 1998-99 £19.46 billion of benefit encashments were made from Vote 1 accounting groups. Another £61.35 billion were paid from combined Vote 1 and National Insurance Fund accounting groups. Of these, £60.88 billion were apportioned between Vote 1 and the National Insurance Fund using PACS and the remaining £0.47 billion were apportioned by other statistical information.

Explanatory Notes on Expenditure and Receipts—*continued*

Notes—*continued*

Surplus Vote

The Account shows a total net underspend of £1,675 million. Expenditure on Income Support (IS) for under 60 years of age was £487 million less than originally forecast. The number of new awards was less than estimated resulting in the average caseload being around 150,000 lower than anticipated. Expenditure on IS for the elderly was £157 million less than originally forecast with caseloads throughout the year being some 50,000 lower than anticipated. This was due to lower proportions of pensioners being entitled to IS top-ups, because of slower than anticipated growth in disability benefits and the effect of rising incomes.

Expenditure on disability benefits was £754 million less than originally forecast. Disability Living Allowance (DLA) accounted for £377 million, the caseload being 80,000 lower due to slower growth than anticipated and proportionally more lower rate recipients than expected. Attendance Allowance (AA) accounted for £196 million for similar reasons. Severe Disablement Allowance (SDA) accounted for £128 million due to the caseload being some 60,000 lower than anticipated, mainly because forecasts of significant claimant growth were unrealised.

Expenditure on Family Benefits was £186 million less than originally forecast. Almost all of this was Family Credit (FC), for which expenditure was £182 million less than provisions. This was due to caseload being some 50,000 lower than anticipated, mainly due to an unexpected decline in the number of new awards to couples.

The lower caseloads than forecast, in some instances, are likely to be partially due to Benefit Agency projects such as the “Evidence Project” on IS and the “Safeguarding Project” on DLA which apply stricter interpretation of guidelines in making new awards.

Losses Statement

Total (970,099 cases)

£000
136,004

Details

General Losses

Cash losses due to irrecoverable overpayments of benefits recorded during the year. In Income Support and Jobseeker’s Allowance cases, where the claimant’s faith was not in doubt and where recovery action was not appropriate, the recorded overpayment has been restricted to the net amount overpaid since the beginning of the financial year preceding that in which the overpayment was discovered. These losses are identified by normal working practices or by measures introduced through the various projects within the security and control programmes.

36,527

Write-Off of Debt Through Easement

During 1997–98 a package was negotiated with Treasury which allowed a large backlog of overpayment cases to be written off. The aim of the exercise was to clear out old, unproductive debt in readiness for the introduction of the Debt Accounting Management System. The package also included provision to write-off newly arising non-recoverable cases using estimating procedures. This enables resources to be re-targeted to more cost effective recovery. During 1998–99, 386,859 cases were processed through the package. 1,887 of these related to overpayments that would have been recoverable under Social Security legislation, but were of such an age that recovery was no longer cost effective. The sum involved in these particular cases amounted to approximately £1 million. The remainder, approximately £88.6 million, related to cases where overpayments would not be recoverable under Social Security legislation, and were primarily due to official error.

89,600

Explanatory Notes on Expenditure and Receipts—*continued*

Losses—*continued*

£000

Disability Premiums

Entitlement to Attendance Allowance (AA) and Disability Living Allowance (DLA) is one of the criteria for entitlement to the various disability premiums within Income Support (IS) and Jobseekers Allowance Income Based (JSA-IB). The Department became aware that, in the past, notifications of decisions on entitlement and reviews of AA/DLA were not always issued to the BA office dealing with the IS/JSA-IB claims, and notifications, when issued, were not always properly processed. One result is that entitlement to the various disability premiums appears to have been wrongly assessed in the past. A Departmental scan indicated that there may be over 340,000 cases where there is a discrepancy between the data held by the AA/DLA system and that held by the IS/JSA system. A sampling exercise to consider the scope of the problem checked 10,000 of these cases. This resulted in payment of £1.8 million arrears together with over £165,000 compensation. The sampling exercise also identified overpayments amounting to approximately £700,000. This sampling exercise has demonstrated the need to conduct a national exercise to correct entitlement. This will commence in October 1999 and will take two years to complete. Further details will be reported in notes to future years' Accounts.

700

Hospital In-Patients

In October 1996 a Commissioners decision determined that for the purpose of Attendance Allowance (AA) and Disability Living Allowance (DLA) both the day of admission to, and discharge from hospital should be treated as days in hospital. This reversed the previous situation whereby both of these days were treated as days out of hospital. The effect of the decision is that entitlement to AA/DLA for periods of in-patient treatment is now withdrawn one day earlier and reinstatement of the benefit after discharge restored one day later. Where AA/DLA is withdrawn, any Invalid Care Allowance (ICA) in payment is also withdrawn. Revised guidance was issued in July 1997 and the decision implemented in full. Benefit was incorrectly paid under previous caselaw between October 1996 and July 1997. It has been estimated that 100,000 people were overpaid during this period with the amount of the overpayment being estimated as £1.5 million for AA/DLA/ICA.

1,500

Mortgage Interest Direct Scheme

A note to the 1997–98 Accounts explained that the Jobseeker's Allowance Payments Systems (JSAPS) had incorrectly made some duplicate payments in respect of mortgage interest under the Mortgage Interest Direct Scheme. The note explained that the JSAPS had been enhanced to prevent any further duplicate payments occurring in the future and that full details of the amounts involved would be shown in the 1998–99 Accounts. Four Benefits Agency District Offices checked all Mortgage Interest Direct cases. The results, when weighted and extrapolated, indicate that duplicate payments would have been made in approximately 6,875 cases and that the total overprovision would be approximately £3.4 million. The exercise also indicated that attempts to recover this overprovision would have recouped approximately £0.7 million. The Department is currently considering the recoverability of the balance. Further details will be provided as appropriate in notes to future years' Accounts.

2,700

Duplicate Payments of Jobseeker's Allowance by ACT

The Jobseeker's Allowance Payments System (JSAPS) has incorrectly made some duplicate payments in respect of some jobseekers who are paid by ACT. The duplicate payments have been caused by a fault in the JSAPS computer system. A correction was made to the computer system on 6 March 1999. The fault was a result of changes which were made to JSAPS on 6 April 1998. The estimated loss for the period 6 April 1998 to 6 March 1999 is £172,000.

172

Explanatory Notes on Expenditure and Receipts—*continued*

Details—*continued*

£000

Organised Fraud

As at the end of 1998–99 the Benefits Agency Security Investigation Service (BASIS) investigated and brought prosecutions from 17 operations which each involved a loss to public funds of over £100,000. Two of these operations also included National Insurance Fund benefits and are therefore also shown in the National Insurance Fund Account. The combined total loss to public funds in respect of Vote 1 benefits was £3,683,729. All of these fraud cases involved organised or systematic abuse of the benefit system and involved either instrument of payment fraud or multiple identity fraud. In total 26 people were charged, with 26 of them receiving sentences of imprisonment of between three months and four and a half years, together with confiscation orders and compensation orders where appropriate.

3,684

Post Office Fraud

Suspicious were aroused because of the high number of pensions and social security payments made at a small village post office. A fraud investigation subsequently launched by Post Office Counters Ltd. resulted in the owner of a post office being charged with theft. The total loss was calculated by Post Office Counters Ltd. to be £1,033,578. Using an agreed basis for apportionment between non-contributory and contributory expenditure an amount of £304,906 has been charged against Class XII, Vote 1, and an amount of £728,672 appears in the 1998–99 National Insurance Fund Account. The perpetrator admitted to 13 charges of theft totalling £748,000 and received a prison sentence of five years. A compensation order of £748,000 was made by the court. Civil proceedings may be taken to recover the difference. To date, no monies have been returned to the Benefits Agency. The fraud was perpetrated by the deliberate, incorrect completion of post office accounts between December 1995 and September 1998, and internal accounting processes are now currently being reviewed by Post Office Counters Ltd.

305

Income Support Fraud

A member of staff was found to be assisting a major West African organised fraud ring by supplying identities for use as the basis for false claims, and in some cases processing the claims themselves. Most of the identities belonged to former customers, with false details of children added to increase the rate of benefit. The matter was referred for further investigation when a number of fraudulent Income Support (IS) benefit claims were identified for which there were no supporting documentation, some of which were found to have been processed by the same officer. Various features of this fraud would normally be identified by the Audit Trail Analysis System (ATAS) and Generalised Matching Service (GMS). However, there was some evidence that existing security checks were not being conducted properly, which may have contributed to the scale of the fraud. Various data matching and audit trail analysis techniques have been put in place to prevent and detect similar frauds and security checking procedures are also under review. The member of staff was sentenced to six years imprisonment. Five co-conspirators, who were not employed by the Department, received sentences of between 18 months probation, and 27 months imprisonment for their part in running the claims. The loss to public funds exceeded £339,000.

339

Explanatory Notes on Expenditure and Receipts—*continued*

Details—*continued*

£000

Income Support Fraud—*continued*

A member of staff was found to be trawling a computer system to locate identities with no current benefit interest, which were subsequently passed on to an organised fraud ring for use as the basis for false Income Support (IS) claims. Despite an extensive surveillance exercise, there were others involved in cashing the false payments who could not be identified. Various changes have been made, including Audit Trail Analysis System (ATAS) rules, to identify similar patterns of user activity which might indicate the trawling of computer systems. The member of staff was prosecuted and sentenced to four years imprisonment on charges of conspiracy with persons unknown, as the conspirators could not be identified. The loss to public funds amounted to £250,000.

250

Between 1991-97 a fraud officer set up 16 false claims for Income Support (IS) by using his position to influence payment on these claims. Following referral from the Generalised Matching Service (GMS) in respect of a single parent claim, the identity was matched to another claim for IS where the individual was dependent with a partner. Investigations revealed that the address for the single parent claim was false although the clerical records contained a note from the accused, verifying the authenticity of the claim. The officer was charged with false accounting under the Theft Act 1968 and was sentenced to three and a half years imprisonment with a loss to public funds of £121,394. A confiscation order for £108,400 was made for default on payments to extend the sentence by three years and 45 days.

121

During 1998-99 the Area Director's Investigators undertook an exercise to look at clerical girocheque payments greater than £250 where multiple payments were made. It was noted that there were a number of payments to female customers with no National Insurance number and the security specialists were unable to locate any clerical papers to substantiate these payments. In total, a member of staff in collusion with a person outside the Department, created four false claims for Income Support (IS) with a loss to public funds amounting to £106,337. The Officer was charged with conspiracy to defraud the DSS and sentenced to three years imprisonment, suspended for two years, with a confiscation order made to the total of £43,000.

106

Special Payments (4,676 cases)

£000

4,164

Extra Statutory Payments

Cases Amount

4,676

£000

4,164

Disability Living Allowance Benefit Integrity Project

On 9 February 1998 the Government introduced an additional safeguard to improve confidence in decision making within the Benefit Integrity Project (BIP) and to reassure disabled people. From this date, no decision made as part of the Project to reduce or remove someone's benefit was made on the basis of the customer's statement alone, additional evidence to support the decision was always obtained. On 17 June 1998 the Government announced that certain cases that had been decided under the BIP before the introduction of the safeguard on 9 February would be re-examined. Cases affected were those where the decision was made on the customer's statement alone, and where the customer had not exercised their right to ask for a review of the decision. 962 eligible claimants were identified and offered the opportunity to apply for their case to be re-examined. 309 people accepted the invitation. Extra statutory payments were made in 124 cases, and the total value of the payments amounted to £105,000.

Explanatory Notes on Expenditure and Receipts—*continued*

Special Payments—*continued*

War Pensions Noise Induced Sensorineural Hearing Loss

A note appeared in the 1997–98 Vote 1 Account about certain payments of War Disablement Pension being made by the War Pensions Agency under the authority of Dispensing Instruments but inside the provisions of the Service Pensions Order. Awards of Disablement Pension made since 1 January 1981 for Noise Induced Sensorineural Hearing Loss (NISHL) arising from service in the Armed Forces were found not to reflect the correct medical understanding. But, to ensure that no current beneficiary was made worse off, awards made before 1 March 1996 were allowed to stand on a mark-time basis, under provisions within the Service Pensions Order. In addition, Ministers decided that claims made before 1 March 1996 but outstanding on 22 October 1996 should be awarded, by way of the Dispensing Instruments, under the more favourable but incorrect rules so as to bring them into line with awards made before 1 March 1996. In the previous financial year 542 cases were identified. Unfortunately, the appropriate marker was not entered on the War Pensions Computer System (WPCS) in all these cases. It has been decided, therefore, that utilising a scan from WPCS will be the formal method of calculation from now on, i.e. dealing with actual cases that have been located rather than embarking on a theoretical exercise that cannot be substantiated from WPCS. In 1998–99, 348 cases have been identified as being paid under the Dispensing Instruments and the total amount paid has been estimated as £654,557.

Sports Awards

The Department is aware that incorrect interpretation concerning awards made under the World Class Programme has resulted in incorrect payments of income-related benefits amounting to approximately £2 million. The World Class Programme was introduced in April 1997. It is a Lottery-funded scheme designed to help British athletes to prepare and compete at the top level. It can provide financial assistance with both general living costs and the specific costs associated with training and competing. Recipients of awards made under the World Class Programme may, if all other criteria are satisfied, be entitled to an income-related benefit. The Department's best estimate is that there are approximately 200 people in this position. The Department had always intended that any element of these awards not covering day to day living expenses should be disregarded when calculating entitlement to income-related benefits. In August 1998 the Department received advice indicating that this practice was incorrect. Legislation (SI 1999/2165) coming into force from 23 August 1999 provides a legal basis for the disregarding of any element of awards made under the World Class Performance scheme that do not relate to day to day living expenses. The Department's best estimate is that disregarding awards made under the World Class Programme resulted in incorrect payments amounting to £0.5 million in 1997–98, £1 million in 1998–99 and £0.5 million between April 1999 and 22 August 1999.

Other Notes

Income Support/Jobseekers Allowance Payments to Ancillary Workers

Government policy has been that education ancillary workers are automatically excluded from Income Support (IS)/Jobseekers Allowance (JSA) during school holidays where the hours worked during term time, when averaged across the school year, place them in remunerative work during both term and holiday periods. However, following the decision of a Social Security Commissioner in August 1997, IS/JSA was paid to ancillary workers during the school holidays. The Department's best estimate is that the cost was approximately £6 million in a full year. Recent caselaw (a further Commissioner's decision, supported by a ruling in the Court of Appeal in July 1999) has removed the legal basis for these payments. The Department's legal advice is that all these decisions are retrospective so any IS/JSA paid to ancillary workers may have been wrongly paid. Forthcoming litigation in the Court of Sessions may alter the position again. The House of Lords may also consider the matter. The Department is considering the issues raised by this litigation. Further details will be included in a note to the 1999–2000 Accounts.

Explanatory Notes on Expenditure and Receipts—*continued*

Other Notes—*continued*

Jobseekers Allowance Fail to Attend

A note to the 1997–98 Accounts explained that overpayments of Jobseekers Allowance (JSA) had occurred because legislation governing the disallowance of claims where people fail to attend on the correct day was not properly enforced. The note indicated that further details would be provided in a note to the 1998–99 Accounts. Commissioners' decisions in October 1998 and May 1999 have since indicated that legislation did not support the policy intention that entitlement to JSA should cease from the day of non-attendance unless good cause for non-attendance can be shown within five working days. The Commissioners' view was that, following a failure to attend, claimants should be given a letter warning them that entitlement to JSA would cease should they fail to attend on a second successive occasion. As a result, amending legislation was introduced from 25 March 1999 to restore the policy intention on fail to attend cases. Prior to amending legislation, claimants whose benefit was disallowed for failing to attend on the specified day may have been underpaid. The Department is considering the cumulative effect of Commissioners' decisions and legislation in force prior to 25 March 1999. It will not be possible to assess the overall financial effect until this has been done. Further details will be included in a note to the 1999–2000 Accounts.

Jobseekers Allowance for People who fail All Work Test

Some payments of Jobseeker's Allowance (JSA) made to former recipients of Incapacity Benefit (IB) (or Income Support on the grounds of incapacity) who have failed the All Work Test have had no legal basis. Policy intention is that entitlement to JSA should commence from the day after an IB claim is disallowed provided that JSA is claimed timeously after people have been informed that they have failed the All Work Test. However, people who claim JSA also have to be available for, and actively seeking, work. Claimants who fail the All Work Test would not know that they were required to register as unemployed before being told that they had failed the All Work Test. It is, therefore, unlikely that claimants would satisfy the labour market conditions in the period between failing the All Work Test and receiving notification that the IB claim has been terminated. Anecdotal evidence is that in most cases JSA has been paid to people from the day after the IB claim was terminated providing they acted timeously on being told that they were required to register as unemployed. Legislation introduced from April 1997 meant that people were no longer automatically treated as satisfying the labour market conditions for a part week at the start of a JSA claim. However, the legislation had the unwanted effect of rendering such payments unlawful. The Department estimate that approximately £605,000 has been paid in this way. The Department is taking steps to regularise the position. Extra statutory payments are being made to jobseekers who act timeously on receipt of the notice that they are no longer entitled to JSA (IB) because they have failed the All Work Test. A suitable corrective amendment was put before the Social Security Advisory Committee in August and arrangements are currently being made for the amendment to be considered by Parliament. Further details will be included in a note to the 1999–2000 Accounts.

Jobseekers Allowance for Discharged Prisoners

Since March 1997, some payments of Jobseeker's Allowance (JSA) made to discharged prisoners during the first days of their claim may not have had a legal basis. Policy intention is that people released from detention who claim JSA should be treated as satisfying the labour market conditions in the first seven days following release. They are also treated as actively seeking work in the first full benefit week if it overlaps with those seven days. The purpose is to provide discharged prisoners who lodge a claim for JSA with a short period to re-establish themselves in the community before having to prove that they are available for, and actively seeking, work. Legislation does not permit ex-prisoners to be deemed as automatically satisfying the labour market conditions for a part week at the start of their claim. This was an unintended consequence of regulations designed to prevent all people being automatically and inappropriately deemed as satisfying the Labour Market conditions in the first part week of any claim. Anecdotal evidence indicated that benefit to ex-prisoners has been paid in accordance with local office guidance reflecting policy intention rather than the letter of the law. This may have caused some ex-prisoners to be incorrectly deemed to have satisfied the Labour Market conditions during the first part-week of their claim and paid benefit accordingly. However, in some instances benefit would have been properly paid to ex-prisoners who did satisfy the Labour Market conditions. The Department is taking steps to regularise the position. Extra statutory authority has been granted for payments made outside the law, but within policy intention. A suitable corrective amendment was put before the Social Security Advisory Committee in August and arrangements are currently being made for the amendment to be considered by Parliament. Further details will be included in a note to the 1999–2000 Accounts.

Explanatory Notes on Expenditure and Receipts—*continued*

Other Notes—*continued*

Duplicate Payments of Christmas Bonus

The way in which Christmas Bonus payments are made on different benefit systems results in a relatively small number of payments being duplicated—estimated at between 0.2% to 0.4% of total spend. Action has been taken over the last 3 years to reduce these errors—a previous matching exercise in relation to payments made in 1996–97 identified an estimated loss amounting to £365,000. There was no exercise in 1997–98 but returned payments received suggest a loss of around £280,000. During 1998–99 it is estimated that around 60,000 £10 Christmas Bonus payments may have been duplicated. Of these 2,825 have been returned leaving around 57,000 possible duplicates. Further work to more accurately quantify this, will be reported in the 1999–2000 Account.

Disability Living Allowance Overpayments (Benefit Integrity Project)

During 1998–99 the Chief Adjudication Officer monitored a number of Disability Living Allowance (DLA) decisions made as part of the Benefit Integrity Project. This brought to light a problem with current legislation. In DLA and Attendance Allowance (AA) this resulted in the identification of recoverable overpayments where it was not reasonable for claimants to have known that there had been a change in their condition which they are required to report to the Benefits Agency. For example, peoples' care needs may reduce if they adapt to disability over a long period. This will affect benefit although they remain disabled. On 25 February 1999 the Secretary of State issued an Accounting Officer direction to the Benefits Agency to ensure that action would not be taken to recover overpayments in cases involving the care and mobility conditions of DLA or AA or the application of the All Work Test. A clause introduced into the Welfare Reform Bill is intended to give parliamentary approval to that action. Regulations have also been made under existing powers to provide that overpayments will only arise in circumstances in future where it would be reasonable to expect that a claimant should have known that they are required to report a change to the Benefits Agency. It is estimated that overpayments of DLA, AA and linked benefits amounting to £15 million will accrue until this legislation comes into force. Full details will be provided in a note in the 1999–2000 Accounts.

Severe Disability Premium

The 1997–98 Class XII, Vote 1 Account reported the outcome of an exercise to review live claims for Income Support (IS) where the award of a Severe Disability Premium (SDP) had been overlooked. The note explained that an exercise to examine dormant claims had commenced in March 1996. It was completed in November 1998. 42,250 claims have been examined, of these 4,000 have received arrears amounting to £10.8 million. Approximately 3,000 people have ongoing benefit entitlement as a result of the dormant claims exercise, at a cost of £6 million per annum.

REA/RA

Industrial Injuries Reduced Earnings Allowance (REA) is replaced on retirement with Retirement Allowance (RA) which is payable at 25% of the rate of REA at retirement. However, certain persons, who are first awarded REA when they are over pensionable age and have already given up regular employment, cannot be transferred to RA and remain in receipt of REA. This is in accordance with the law but contrary to the policy intent. As a result, unintended expenditure on REA has been incurred since March 1996. Ministers are aware of this deficiency, which is in the relevant primary legislation. An amendment will be considered should a suitable legislative vehicle become available. The Department estimate that the unintended expenditure, for 1996–97, 1997–98 and 1998–99, amounts to approximately £0.2 million, £0.5 million and £0.9 million respectively.

Explanatory Notes on Expenditure and Receipts—*continued*

Other Notes—*continued*

Benefits Agency General Note

Introduction

BA is focused on meeting the Government's objective of establishing an active modern social security service which encourages independence and pays the right money to the right person at the right time, all the time. A key responsibility is to ensure secure and effective payment of Programme money, centred on improving accuracy and addressing fraud and error.

In April 1999 DSS introduced a Programme Protection Strategy in support of the command paper: A new contract for welfare—Safeguarding Social Security. This is a comprehensive programme of around 50 activities, projects and initiatives to promote secure and accurate services by the application of risk management techniques, combined with a new Performance Management Regime, to improve measurement of the success of fraud and security activities. Weekly Benefit Saving is no longer a target, its replacement being an overall reduction of 30% in benefit losses from Jobseekers Allowance (JSA) and Income Support (IS) fraud and error by 2007 (at least 10% by 2002). During the latter half of 1998–99 much preparatory work was undertaken to enable Area Directors (AD's) to prepare their own Programme Protection Plans for 1999–2000. These Area Programme Protection Plans, for the first time in some years, provide AD's with some flexibility in the use of resources to enable better targeting of risk to meet local conditions.

Benefit Review

Benefit Reviews were initiated, as a key element of the DSS anti-fraud strategy, in response to the need for more quantitative and qualitative information about the extent of fraud and error. A series of National Benefit Reviews of major benefits was carried out, the results of which were reported in previous accounts. The aim is that the first review of each benefit sets a baseline to establish the nature and extent of fraud and abuse. Repeat exercises may be carried out so as to enable identification of any change in patterns of fraud and abuse.

Area Benefit Reviews (ABRs), a development of the National Benefit Review programme, aim to provide a continuous rolling programme of measurement of Income Support (IS) and Jobseeker's Allowance (JSA) cases to determine the continued incidence and cost of fraud and customer error, in each of the Benefits Agency's 13 Area Directorates. Results of the first six months of ABRs were published, via the Government Statistical Services (GSS), on 27 November 1998. These interim findings showed about 12.5% of IS cases and 11% of JSA (Income Based) cases, involved fraud or customer error. The annual potential loss in these cases is estimated at £640 million and £281 million respectively. Additionally, the GSS findings also identified high suspicion of fraud amounting to £567 million in IS and £198 million in JSA(IB). From May 1998, activity on all high suspicion cases is tracked until a conclusion is reached, with the aim of re-classifying cases as fraud or correct, wherever appropriate. In April 1999 the Agency successfully extended the ABR process to include the contributory element of JSA. The next set of ABR results when published will contribute to the baseline against which progress towards the Public Sector Agreement target (reducing programme loss owing to fraud and error in IS and JSA by 30% by 2007 and at least 10% by March 2002) will be measured. These figures will be reported in next year's accounts.

Security and Control Programme

This was the last year of the Security and Control Programme and was marked by a general failure to meet Weekly Benefit Savings and "Sign-off" targets. Some £1.141 billion security savings were achieved, against a target of £1.781 billion, a figure arrived at following internal validation. Among those factors affecting Weekly Benefit Savings performance were the impact of Evidence Requirements (a new regime to systematically check clients claim information) thereby reducing fraud and error entering the system in the first place, an increased focus on quality, significant increases in activity targets, and tightening of instructions. Staffing problems and preparations at Area level for the new Programme Protection strategy also impacted on the achievement of targets.

Explanatory Notes on Expenditure and Receipts—*continued*

Other Notes—*continued*

Security and Control Programmes—*continued*

Despite the difficulties in achieving security savings targets there were some notable successes. In particular, prosecution of collusive employers were in excess of 400, around a third up on 1997–98. The Agencies understanding of the risks posed to its business grew with a further series of Area Benefit Reviews' results, and progress towards the development of a comprehensive risk management function.

Generalised Matching Service

Data matching addresses inherent weaknesses in DSS computer systems whereby data held on the same individual, but on separate computer systems, is not automatically shared between relevant DSS systems or other Government Departments. The Generalised Matching Service (GMS), which has been in operation since 1995, continues to be an effective tool to assist the detection of fraud, incorrectness and overpayment. The potential for data matching arises where details of a customer record on one system are inconsistent with another record held on the same or a different system. During 1998–99 over 139,000 cases were generated for investigation resulting in an estimated £106.9 million of benefit savings. A total of £44.7 million has been calculated as overpayments as a result of this activity.

Accuracy

Income Support (IS) and Jobseeker's Allowance (JSA) are complex benefits, subject to frequent legal and procedural changes. Accurate calculation relies on the capture of a range of evidence from both claimants and third parties, and the correct interpretation and application of that evidence in line with complex regulations. During the course of a claim there may be several changes, all requiring the gathering and interpretation of new evidence. Claimants do not always report changes timeously and because of the means tested nature of IS, there is always pressure on staff to pay benefit promptly to avoid hardship.

The process of obtaining accuracy rates and monetary value of error (MVE) figures involves 30,000 IS and 30,000 JSA cases being re-examined by a Quality Support Team. Figures from this exercise show an IS accuracy rate of 83.4% and a monetary value of error of £636.8 million. This compares to 81.7% and £554.6 million respectively for 1997–98. While staff are making fewer errors, the rate of error in high value aspects of IS claims, such as conditions of entitlement, has increased. This has resulted in a higher average value of error and increased MVE of £82.2 million.

JSA is the joint responsibility of BA and Employment Service (ES). BA is responsible for assessment and payment aspects of a claim and ES for labour market aspects. Quality Support Team findings for JSA show an accuracy rate of 88% and an MVE of £243.8 million. This compares with 85.1% accuracy and an MVE of £150.8 million last year. JSA percentage accuracy exceeded the Secretary of State target of 87% but at the same time MVE increased by £93 million over last year's figure. Of the increase, £49.5 million is attributable to errors and irregularities in labour market aspects and £41.6 million to conditions of entitlement (evidence and payment related errors). The Quality Support Team methodology changed slightly between 1997–98 and 1998–99 with the ending of a limited easement to their checking procedures which had applied during the transition of the IS unemployed caseload to JSA.

The control of JSA programme expenditure relies on a claims process requiring action by staff in Employment Service Jobcentres, and BA district offices. Both agencies are concerned at the increase in monetary value of errors in JSA and will work together to address the problems highlighted.

Explanatory Notes on Expenditure and Receipts—*continued*

Other Notes—*continued*

Accuracy—*continued*

The Agency remains concerned at the level of error and the difficulties it faces in moving towards an accuracy target of 87%. IS accuracy has seen a 1.75% improvement against last years error rate, and JSA has also improved by 2.9%. As an interim step towards achieving the Secretary of State target for Income Support accuracy, Area Directorates were set an improvement target of 84%. In 1998-99 8 of 13 Area Directorates exceeded this target, 2 others missed by margins of less than 0.25%.

Other accuracy initiatives have continued or been introduced during 1998-99. These included area accuracy co-ordinators, and a line management assurance package, coupled with a technical evaluation package. Funding has been made available to maintain the profile of accuracy and continue with accuracy initiatives. To reinforce the priority of accuracy, a sub-group of the Benefits Agency Steering Group, has launched an annual action plan. This included reinforcement of the cultural message about the importance of accuracy, providing help to effectively introduce new procedures, linking with other projects (such as Evidence Project), seeking to reduce complex procedures and to inform changes to targets and the Quality Support checking methodology.

Benefit Integrity Project

The Benefit Integrity Project was established to examine existing claims for Disability Living Allowance (DLA), ensuring that benefit was paid correctly. The Project, which was part of the Security and Control Programme, began in April 1997. It examined claims where people received the highest rate of mobility component combined with either the highest or middle rate of care component. Whilst the Project found benefit being paid incorrectly in approximately 21% of cases (after review and appeal), there were a number of difficulties with the operation of the Project that could not be overcome despite administrative improvements. The Project ceased on 31 March 1999 following an announcement by the Secretary of State to introduce a new system which would be fair and sensitive to the needs of individual people. Following extensive consultation with the disability lobby a new form of review mechanism has commenced, known as Periodic Enquiry. This enquiry ensures an up to date picture of the disabled persons need for help and mobility are established and indicate if entitlement needs to be reviewed.

Overpayments

Overpayments arise for two main reasons; inaccuracy as a result of a fraud or mistake on the part of the customer, or through official error. In general, when the customer is at fault, it is possible to pursue recovery although recovery is not sought in some special circumstances. It is not possible, however, to pursue recovery where there has been an official error unless a voluntary repayment has been offered by the customer. As a result, the losses statement to this account includes £16.3 million in overpayments written off because of official errors and some £9.5 million in overpayments written off in respect of customer overpayments. These figures show a reduction in comparison to last year resulting from the first full year of operation of the easements package.

The BA continued to operate an easements package of measures during 1998-99 that estimates rather than calculates overpayments. This applied in cases where, due to Departmental error, there is no right to recovery, or cases where due to age, it would not be cost effective to pursue. This year 386,000 cases with an estimated value of £89.6 million were dealt with in this way. This compares with 120,000 cases with an estimated value of £29.6 million in 1997-98 when the scheme operated for the first two months of that year.

Explanatory Notes on Expenditure and Receipts—*continued*

Other Notes—*continued*

Overpayments—*continued*

During 1998–99, £153.1 million was recovered in respect of benefits on this Account and as at 31 March 1999 some £799 million remains on the Agency debt recording systems as outstanding overpayments for Vote 1 benefits. The figure for outstanding overpayments was taken from the accruals based Programme Accounting Computer System (PACS) which at 31 March 1999 included an estimate of last quarter write-offs. The write-offs reported in this account include full years Actuals, explaining the reconcilable differences between a calculated closing debt figure and that held on PACS.

There are approximately 84,000 cases relating to District Office benefits and Central Benefit Directorates awaiting overpayment action. This compares with a target figure of 105,000 which is the average monthly intake of new overpayment cases. The District figure includes a small number of non-Vote 1 cases which are not identified separately. The likelihood remains that some of these overpayments will prove impossible to recover, any of these losses will be included in future losses statements relevant to this account.

During 1998–99 a Debt Accounting and Management System (DAMS) was being developed based on commercially available software. In the course of development it became clear that because of the complex nature of Social Security debt rules, this system would not be feasible as originally envisaged. Both DSS and suppliers have agreed that it would be more appropriate to incorporate this work into the wider work being carried out by the Modern Service Team (MST). Meanwhile, contingency plans are in place to tighten management controls for debt pending delivery of a long term solution by the MST.

Instrument of Payment (IOP) Fraud

Instrument of Payment fraud included theft, counterfeiting and false reports of loss. It can involve either individuals or organised gangs. It is estimated that fraudulent IOP loss during 1998–99 were in the region of £83.2 million for order books and £19.4 million for girocheques (£98 million and £21 million in 1997–98 for order books and girocheques respectively). These figures relate to all benefits as figures for Vote 1 benefits could not be separately identified. The reduction in order book fraud is partly attributed to a reduction in the number of order books issued.

The BA is continuing to operate and implement measures designed to prevent and detect IOP fraud. In January 1999 an IOP Security Steering Group was established to oversee the types, control mechanisms and scale of IOP fraud, particularly related to order books and girocheques. Other activities include an end to end review of IOP systems, sharing intelligence in order to develop design features to prevent manipulation and forgery, and work with Royal Mail and other security carriers to improve the systems in place for the secure delivery of IOPs. Additionally, BA is collaborating with Post Office Counters Ltd. and Banks to improve security at the point of encashment.

Benefit Payment Card and Accounting

On 24 May 1999 the Government decided that the Post Office automation project should proceed but without the Benefit Payment Card. Agreement was reached between DSS/BA, Post Office Counters Ltd. and ICL/Pathway regarding a way forward. The main features of that agreement were that: the agreement to develop and purchase the Payment Card was cancelled; Post Office automation would go ahead and be completed by the end of 2001; BA would seek to tackle benefit fraud by using bar coding on order books, subject to agreement of the commercial implications and acceptance criteria with Post Office Counters Ltd., BA will continue to offer traditional “paper based” methods of payment through post offices, but from 2003 will replace order books and girocheques with ACT, securing the improved accounting and reconciliation features ACT offers. Conversion to ACT is planned to be completed by March 2005.

Explanatory Notes on Expenditure and Receipts—*continued*

Other Notes—*continued*

Benefit Payment Card and Accounting—*continued*

The introduction of the Payment Card was a key part of the Benefits Agency's strategy for improving the integrity of financial accounts. Cancellation of the Payment Card means that, prior to addressing associated accounting problems of paying customers by ACT, other options to improve the quality of accounting data will need to be explored. In particular, enhancing the functionality of Order Book Control System will be investigated to establish the extent of which accounting concerns can be addressed.

P Y Mathison
Accounting Officer

22 October 1999

Statement on the System of Internal Financial Control

As Accounting Officer for the Class XII, Vote 1 Account, I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned. I carry out this responsibility as set out in The Agency Framework Agreement.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular, it includes:

- a forecasting and estimating process based upon statistical information;
- the preparation of regular financial reports which inform review of actual expenditure against forecasts;
- procedures to seek approval for additional funds as necessary via Supplementary Estimates;
- use of an accounting system (Programme Accounting Computer System) that provides more accurate financial information in the apportionment of benefit expenditure;
- implementation and monitoring of an Accounting Migration Strategy that aims to achieve sound business control in support of corporate governance principals.

Benefits Agency has an internal audit unit which operates to standards defined in the Government Internal Audit Manual. The work of the internal audit unit is informed by an analysis of the risk to which Vote 1 benefits are exposed, and annual internal audit plans are based on this analysis. The analysis of risk and internal audit plans are endorsed by the Department's and BA's Audit Committees and approved by myself and the Department's Principal Accounting Officer. Annually, the BA Head of Internal Audit (HIA) provides me with a report on internal audit activity. The report includes the HIA's independent opinion on the adequacy and effectiveness of the system of internal financial control.

My review of the effectiveness of the system of internal financial control is informed by the work of the BA, Departmental Internal Auditors and the executive managers within Benefits Agency who have responsibility for the development and maintenance of the financial control framework, and comments made by the external auditors in their management letter and other reports.

The review of the system of internal financial controls has confirmed the main weaknesses in systems are fraud, including instrument of payment fraud and inaccuracy of certain benefit payments. The following initiatives are currently under development to address these weaknesses.

Implementation of a comprehensive fraud strategy, as outlined in the green paper entitled "Beating Fraud is Everyone's Business: Securing the future".

Introduction of a new performance management regime, as set out in the White Paper: "A New Contract for Welfare—Safeguarding Social Security", that will aim to support work to deliver secure and accurate services. The new regime will have one key output target—to reduce the level of fraud and error in Income Support and Jobseeker's Allowance by 30% in year 2007 with an interim target of a least 10% by 2002.

Delivery of a method of payments strategy that aims to move towards full automation of all payments and develop better ways of protecting current paper based method of payments during this transition.

P Y Mathison
Accounting Officer

22 October 1999

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

I certify that I have audited the financial statements on pages 6 to 25 under the Exchequer and Audit Departments Acts 1866 and 1921.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 3 the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the statement on the system of internal financial control on page 26. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the appropriation account properly presents the expenditure and receipts of Class XII, Vote 1 and whether in all material respects the expenditure and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, proper accounting records have not been kept, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 26 reflects compliance with Treasury's guidance "Corporate governance: statement on the system of internal financial control". I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of Opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

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

Qualified opinion because of irregular expenditure arising from errors in benefit awards and from fraudulent benefit claims and fraudulent encashment of instruments of payment

In my opinion:

- the appropriation account properly presents the expenditure and receipts of Class XII, Vote 1 for the year ended 31 March 1999; and
- except for:
 - (i) irregular expenditure arising from errors in benefit awards (paragraph 2.38 of my report);
 - (ii) irregular expenditure arising from fraudulent benefit claims and fraudulent encashment of instruments of payment (paragraph 3.13 of my report);

in all material respects the expenditure and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

John Bourn
Comptroller and Auditor General

13 January 2000

National Audit Office
157–197 Buckingham Palace Road
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Housing Benefit Subsidies, Council Tax Benefit Subsidies and Administration, Payments into the National Insurance Fund and the Social Fund and other grants

Summary of Outturn, and the Account of the sum expended, in the year ended 31 March 1999, compared with the sum granted, for expenditure by the Department of Social Security on rent rebate, rent allowance, council tax benefit, community charge benefit, community charge rebate and rate rebate subsidies to housing, billing, levying and local authorities, subsidies towards their costs incurred in administering the housing benefit and/or council tax benefit schemes and sums payable in respect of anti-fraud and similar administrative measures; sums payable as funding for LOFIT; sums payable for use for compensation payments to providers of existing supported accommodation; sums payable as start-up costs incurred as part of the Welfare to Work initiative; sums payable to Private Sector Landlords of existing supported accommodation for use as compensation payments, sums payable to the National Insurance Fund to increase its income, compensation payments in respect of statutory sick pay, statutory maternity pay and the national insurance contribution holiday scheme; sums payable into the Social Fund for expenditure on maternity expenses, funeral expenses, heating expenses in exceptionally cold weather and Winter fuel payments, and to finance budgeting loans, crisis loans and community care grants; sums payable as grants to Independent Living, as grants to Motability towards their administrative costs and to enable them to assist invalid vehicle users and others to have adapted and/or to purchase or lease cars from them and as grants to the British Limbless ex-Servicemen's Association to enable them to assist certain other disabled vehicle users to have cars adapted; sums payable to personal and occupational pension schemes.

Summary of Outturn

Section	Estimated			Actual		
	Gross Expenditure £000	Appropriations in Aid £000	Net Expenditure £000	Gross Expenditure £000	Appropriations in Aid £000	Net Expenditure £000
Department of Social Security						
A*	130,060	132	129,928	116,571	132	116,439
B*	100	—	100	—	—	—
C	28,798	11	28,787	24,220	172	24,048
D*	20	—	20	—	—	—
E*	37	—	37	—	—	—
F*	5,621	204	5,417	5,393	204	5,189
G*	155,610	—	155,610	157,838	—	157,838
H	8,930,080	650	8,929,430	8,141,719	222	8,141,497
I	4,900	—	4,900	363	—	363
J*	20,000	—	20,000	19,996	—	19,996
K*	12,980	—	12,980	9,499	—	9,499
L*	1,000	—	1,000	858	—	858

Summary of Outturn—continued

Section	Estimated			Actual		
	Gross Expenditure	Appropriations in Aid	Net Expenditure	Gross Expenditure	Appropriations in Aid	Net Expenditure
	£000	£000	£000	£000	£000	£000
M*	14,963	—	14,963	5,475	—	5,475
N	541,100	2,900	538,200	561,300	4,020	557,280
O*	138,200	—	138,200	132,600	—	132,600
P	67,480	—	67,480	52,000	—	52,000
Q	190,000	—	190,000	181,000	—	181,000
R*	2,500	—	2,500	2,500	—	2,500
S	82,230	—	82,230	82,230	—	82,230
Total	10,325,679	3,897	10,321,782	9,493,562	4,750	9,488,812**

Explanation of the Causes of Variation between Estimated and Realised receipts

NZ Recoveries of Statutory Sick Pay from damages made payable to its recipients ceased from 1 April 1994. In 1998-99 they were estimated to fall by 43% from £6,746,000 recovered in 1997-98. However, the amount received depends upon the settlement of outstanding legal cases and more of these were finalised than expected resulting in higher receipts.

*Cash limited.

**This figure is £852,641.55 less than the net total of expenditure on the Appropriation Account, being the difference between the Appropriations in Aid realised (£4,749,641.55) and those authorised to be applied (£3,897,000.00).

Account

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Grants to Independent Bodies				
A4 Grants and transfer: current	130,060	116,571	13,489	—
Compensation payments to Private Sector Landlords				
B4 Grants and transfers: current	100	—	100	—
Housing Benefit Subsidies: New Towns				
C4 Grants and transfers: current	28,798	24,220	4,578	—
Challenge Funding and similar administrative measures				
D4 Grants and transfers: current	20	—	20	—
Verification Framework				
E4 Grants and transfers: current	37	—	37	—
Administration Grants				
F2 Direct expenditure: other current	975	747	228	—
F4 Grants and transfers: current	4,646	4,646	—	—
Housing Benefit and Council Tax Benefit administration grants (current grants within AEF)				
G4 Grants and transfers: current	155,610	157,838	—	2,228
Housing Benefit subsidies and Council Tax Benefit subsidies (current grants outside AEF)				
H4 Grants and transfers: current	8,930,080	8,141,719	788,361	—

Explanation of the Causes of Variation between Expenditure and Grant.

- A4 The 1998-99 provision for the Independent Living Funds was £127 million and the outturn is £112 million which indicates an underspend of £15 million. There are two reasons for this variance. The 1998-99 provision of £127 million included £5.3 million for ILF expenditure in Northern Ireland. The outturn is on a GB basis. Provision for GB was £121.7 million. Therefore the actual underspend is £9.7 million not £15 million. The Northern Ireland outturn is accounted for elsewhere. The reasons for the underspend in GB (which is less than 10 per cent of provision) are as follows: a higher than anticipated attrition rate in the Extension Fund (which is closed to new clients); applications for the 1993 Fund have levelled off and are lower than forecast by the ILF.
- C4 The transfer of housing stock from Scottish Homes to other Scottish local authorities resulted in a reduction in the number of beneficiaries claiming Rent Rebates from the New Town authority.
- H4 The 1998-99 provision for Housing/Council Tax Benefit subsidies was based on local authorities 1997-98 estimates. These estimates were higher than the amounts actually claimed, which resulted in the 1998-99 provision being over estimated. In addition, the number of rent allowance and council tax beneficiaries and rent increases were lower than anticipated. This resulted in a lower level of expenditure than estimated.

Account—continued

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Compensation payments to providers of existing supported accommodation				
I4 Grants and transfers: current	4,900	363	4,537	—
Discretionary Rent Allowance				
J4 Grants and transfers: current	20,000	19,996	4	—
Challenge Funding and similar administrative measures				
K4 Grants and transfers: current	12,980	9,499	3,481	—
Funding for LOFIT				
L4 Grants and transfers: current	1,000	858	142	—
Verification Framework				
M4 Grants and transfers: current	14,963	5,475	9,488	—
Payments to the National Insurance Fund				
N4 Grants and transfers: current*	541,100	561,300	—	20,200
Payments to the Social Fund (cash limited)				
O4 Grants and transfers: current*	138,200	132,600	5,600	—
Payments to the Social Fund				
P4 Grants and transfers: current*	67,480	52,000	15,480	—
Payments to the Social Fund (in respect of Winter Fuel payments)				
Q4 Grants and transfers: current*	190,000	181,000	9,000	—
Welfare to Work: childcare disregard start-up costs				
R4 Grants and transfers: current	2,500	2,500	—	—

Explanation of the Causes of Variation between Expenditure and Grant.

- I4 A lack of quantitative data at the outset, and slow take-up of the scheme by local authorities, resulted in a lower level of expenditure than previously estimated.
- K4 The estimate for the National and Local Housing Benefit Accuracy Reviews was based on the costs of the first National Housing Benefit Review (1995). However, because of the innovative nature of the Local Reviews, the costings for the projects that comprised the Local Reviews' exercise were necessarily speculative. Also, the completion of the National Review was delayed until the middle of 1998–99 because of the need to undertake more extensive checking than expected. This resulted in the delay, or postponement, of some of the planned Local Reviews' projects.
- M4 Delayed implementation of the Verification Framework by authorities resulted in the level of expenditure being considerably lower than that previously estimated.
- P4 Warmer weather than forecast resulted in fewer payments by the Social Fund of heating expenses in exceptionally cold weather and this may also have contributed to lower funeral payments than previously estimated.

Account—continued

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Payments to personal and occupational pension schemes				
S4 Grants and transfers: current	82,230	82,230	—	—
Gross Total	£000			
<i>Original</i>	10,325,678			
<i>Winter Supplementary</i>	<u>1</u>			
	10,325,679	9,493,562	854,545	22,428
<i>Deduct</i>				
Appropriations in Aid		Estimated		Applied
<i>Original</i>	3,897	£000		£000
<i>Winter Supplementary</i>	<u>—</u>			
	3,897	3,897		
Net Total				
<i>Original</i>	10,321,781			
<i>Winter Supplementary</i>	<u>1</u>			
	10,321,782	9,489,665		
			Surplus	
			832,117	
			Actual surplus to be surrendered	
				<u>£832,116,762.36</u>

* See also the National Insurance Fund Account and the Social Fund Account which are published separately.

Explanatory Notes on Expenditure and Receipts

1 Expenditure items	Current
<i>Section A: Grants to Independent Bodies</i> [£116,571]	£000
Independent Living: Grant in Aid (Note A1)	112,054
Motability: Grant in Aid (Note A2)	4,506
British Limbless ex-Servicemen's Association: Grant in Aid (Note A3)	11
Total	<u>116,571</u>

Note A1: Grant in aid to enable Independent Living to make payments to certain severely disabled persons to help them to live independently in the community.

Note A2: Grant in aid to Motability to assist invalid vehicle users etc to acquire cars from them on lease or hire purchase and/or to help towards the costs of adaptations to cars for disabled persons.

Note A3: Grant in aid to enable BLESMA to assist with the cost of car adaptations for those war pensioners who do not receive Motability Supplement.

Section B: Compensation payments to private sector landlords [£0]

No payments were made to private landlords of existing supported accommodation as compensation payments.

Section C: Housing Benefit Subsidies: New Towns [£24,220]

Rent Rebates Subsidies (Note C1)	24,220
Anti-fraud incentives (Note C2)	—
Fast track payments (Note C3)	—
Total	<u>24,220</u>

Note C1: Subsidies payable to Scottish Homes towards its expenditure on rent rebates.

Note C2: No payments were made to Scottish Homes in respect of benefit expenditure saved because of anti-fraud action taken by their staff.

Note C3: No subsidies were paid to Scottish Homes in respect of the HB/CTB Fast Track scheme.

Explanatory Notes on Expenditure and Receipts—continued

1 Expenditure items—continued	Current
Section D: Challenge Funding and similar administrative measures: New Towns [£0]	£000
No payments were made to Scottish Homes towards expenditure on anti-fraud initiatives.	—
Section E: Verification Framework [£0]	
No payments were made to Scottish Homes in respect of anti-fraud verification framework measures.	—
Section F: Administration Grant [£5,393]	
Motability administration: Grant in Aid (Note F1)	4,646
Administration New Towns (Note F2)	747
Total	<u><u>5,393</u></u>

Note F1: Grant in aid to Motability towards the administrative costs incurred in assisting disabled persons to obtain cars or wheelchairs and towards assisting invalid vehicle users and others to pay for adaptations to cars and/or buy them on hire purchase or lease from Motability.

Note F2: Subsidies payable to Scottish Homes towards the costs incurred in administering the housing benefit scheme.

Section G: Housing Benefit and Council Tax Benefit administration grants (current grants within AEF) [£157,838]

Housing Benefit administration (Note G1)	94,659
Council Tax Benefit administration (Note G2)	63,179
Total	<u><u>157,838</u></u>

Note G1: Subsidies payable to authorities towards the costs incurred in administering the housing benefit scheme.

Note G2: Subsidies payable to authorities towards the costs incurred in administering the council tax benefit scheme.

Explanatory Notes on Expenditure and Receipts—continued

1 Expenditure items—continued	Current
Section H: Housing Benefit subsidies and Council Tax Benefit subsidies (current grants outside AEF) [£8,141,719]	£000
Rent Rebates Subsidies (Note H1)	714,549
Rent Allowances Subsidies (Note H2)	5,134,600
Council Tax Benefit Subsidies (Note H3)	2,258,847
Anti-fraud incentives (Note H4)	33,472
Fast Track Payments (Note H5)	251
Total	<u>8,141,719</u>

Note H1: Subsidies payable to authorities towards their expenditure on rent rebates.

Note H2: Subsidies payable to authorities towards their expenditure on rent allowances.

Note H3: Subsidies payable to authorities towards their expenditure on council tax benefit.

Note H4: Payments to authorities in respect of benefit expenditure saved because of anti-fraud action taken by their staff.

Note H5: Subsidies payable to authorities to reward them for dealing quickly with in-work HB/CTB claims from those who have claimed extended payments.

Section I: Compensation payments to providers of existing supported accommodation [£363]

Payments made to authorities for use for compensation payments to providers of existing supported accommodation	363
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Section J: Discretionary Rent Allowance [£19,996]

Subsidies payable to authorities towards their expenditure on certain discretionary rent allowances.	19,996
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Section K: Challenge Funding and similar administrative measures [£9,499]

Challenge Funding (Note K1)	7,911
Challenge Funding (Benefit Reviews) (Note K2)	1,345
BA/LA Liaison Projects (Note K3)	243
Total	<u>9,499</u>

Note K1: Payments to local authorities towards expenditure on anti-fraud initiatives.

Note K2: Payments to local authorities towards expenditure on National and Local Accuracy Review initiatives.

Note K3: Payments to local authorities to encourage closer working with the Benefits Agency.

Explanatory Notes on Expenditure and Receipts—continued

	Current £000
1 Expenditure items—continued	
<i>Section L: Funding for LOFIT</i> [£858]	
Payments made to the London Organised Fraud Investigation Team (LOFIT) towards expenditure on anti-fraud action.	858
<i>Section M: Verification Framework</i> [£5,475]	
Payments to local authorities towards expenditure on anti-fraud verification framework measures.	5,475
<i>Section N: Payments to the National Insurance Fund</i> [£561,300]	
Payments into the National Insurance Fund (SSP/SMP) (Note N1)	558,000
Payments into the National Insurance Fund (NIC Holiday) (Note N2)	3,300
Total	<u>561,300</u>
 <i>Note N1: Other payments into the National Insurance Fund are made to recompense it for the loss of revenue due to contribution income being reduced by the amount of Statutory Sick and Statutory Maternity Pay recovered by employers and others. The payments are made in such a manner and at such times as the Treasury may determine. The amount included in Section N1 is based on the Government Actuary's estimate of the aggregate of such recoveries by employers and others in 1998–99.</i>	
 <i>Note N2: Compensation payments made to the National Insurance Fund to recompense it for the loss of revenue due to contribution income being reduced by employers on the employment of certain long-term unemployed.</i>	
<i>Section O: Payments to the Social Fund (Cash Limited)</i> [£132,600]	
Payments made to the Social Fund to cover its costs on community care grants and loans net of recoveries made.	132,600
<i>Section P: Payments to the Social Fund</i> [£52,000]	
Payments made to the Social Fund to cover its costs on maternity payments, exceptionally cold weather payments and funeral expense payments net of recoveries made.	52,000

Explanatory Notes on Expenditure and Receipts—continued

	Current £000
1 Expenditure items—continued	
<i>Section Q: Payments to the Social Fund (in respect of Winter Fuel Payments) [£181,000]</i>	
Payments made to the Social Fund to cover its expenditure in assisting pensioners with their heating costs.	181,000
<i>Section R: Welfare to Work: Childcare disregard start-up costs [£2,500]</i>	
Subsidies payable to authorities for the setup costs of increasing the childcare disregard.	2,500
<i>Section S: Payments to personal and occupational pension schemes [£82,230]</i>	
Sums payable to personal and occupational pension schemes as payments of Age-related Rebates.	82,230

Explanatory Notes on Expenditure and Receipts—continued

2 Receipts payable to the Consolidated Fund	Estimated £000	Realised £000
(i) Receipts of classes authorised to be used as Appropriations in Aid	3,897	4,750
(ii) Receipts of other classes	20	84,950
Gross Total	<u>3,917</u>	<u>89,700</u>
Appropriated in Aid		3,897
Net Total		85,803
Actual sum payable separately to the Consolidated Fund		<u>£85,802,566.02</u>

Details of Receipts	Current £000
(i) Receipts of classes authorised to be used as Appropriations in Aid	£000
A Grants to Independent Bodies	
Recoveries in respect of grant in aid from Motability	132
C Housing Benefit Subsidies: New Towns	
Anti fraud incentive penalties (New Towns)	172
F Administration Grant	
Recoveries in respect of grant in aid to Motability towards the administrative costs incurred in the assistance of invalid vehicle users	204
H Housing Benefit and Council Tax Benefit Subsidies (Current grants outside AEF)	
Anti fraud incentive penalties (Local Authorities)	144
Fast Track Penalties	78
N Payments into the National Insurance Fund	
Compensation recoveries from damages payable to recipients of Statutory Sick Pay	4,020
Total	<u>4,750</u>
(ii) Receipts of other classes	
Age related rebates refund	82,230
Donation from Motability Tenth Anniversary Trust	1,490
Refunds of grants to the Independent Living Fund	22
Refunds of Housing Benefit overpayments	19
Refunds of Challenge Funding	1,179
Refunds from BA/LA liaison projects	10
Total	<u>84,950</u>

Notes

Special Payments

Income from Creditor Insurance

As reported in the 1997–98 Account provisions governing the treatment of income from creditor insurance policies were not being correctly enforced. These policies are designed to enable people who become unemployed or unable to work to meet a variety of debts incurred whilst working. The problem does not affect income from mortgage payment protection plans, for which special provisions apply. Regulations required that payments under creditor insurance policies were taken into account in full if they were made to the claimant, but ignored if made direct to the creditor. Since the policy intention was that local authorities should disregard such amounts the legislation, with effect from 1 June 1998, was therefore amended to provide that all income from creditor insurance policies designed to cover past debt is ignored, regardless of whether payment is actually made to the claimant or direct to the creditor. However between the period 1 April 1988 the 31 May 1998 local authorities failed to take into account income from creditor insurance policies paid to claimants when determining entitlement to Housing Benefit and Council Tax Benefit. On the limited information available the Department has therefore estimated that during this period approximately £140,000 subsidy was paid to local authorities extra statutorily.

Supported Accommodation

The Divisional Court judgement in 24 July 1997 (upheld by the Court of Appeal) confirmed the policy intention that only those service charges which relate to the fabric of the dwelling are generally eligible for Housing Benefit. Evidence suggested, however, that a number of local authorities had been meeting a wider range of support charges than intended. Although ultra vires, these payments, potentially dating back to April 1988, had enabled many thousands of vulnerable people to live independently in the community in private accommodation. The Department therefore introduced the interim scheme to provide stability for both tenants and landlords pending the conclusion of the inter-Departmental review into the funding of supported accommodation. The interim scheme consists of the interim regulations which came into force on 18 August 1997 and legitimise the vast majority of these payments and the Compensation Scheme which was published in December 1997. The Compensation Scheme enables those authorities who had, prior to 18 August 1997, met charges for “personal care” from Housing Benefit paid as a rent allowance, to compensate landlords of “existing supported accommodation” whose tenants lost income because Housing Benefit was no longer meeting these charges. Authorities had until 30 September 1998 to claim Compensation Scheme funding where cases had been reviewed and revised to remove ineligible charges for “personal care” by that date. The Department will reimburse local authorities by up to the amount of subsidy that was previously claimed in respect of those payments for “personal care” when they were met by Housing Benefit, that is 95 per cent, or less if a lower subsidy rate applied. These extra statutory payments to local authorities which are in lieu of Housing Benefit subsidy are offset by a corresponding reduction of interim subsidy.

As it was more a case that these charges had previously been met from the wrong Departmental Vote, rather than that they should not have been met at all, provision was made in the Social Security Act 1998 to validate these past payments of Housing Benefit. Where eligible under the interim regulations from 18 August 1997, payments have been validated up to that date. Otherwise, they have been validated up to the date that benefit was reviewed and revised to remove these charges, subject to a final cut-off date of 31 March/5 April 1998, dependent on whether rent is paid monthly or weekly. Local authorities are required to assess all benefit overpaid in respect of these charges beyond this date.

Notes—continued

Special Payments—continued

The Government announced on 31 March 1999 the decision to pool funding for support services into a single budget—Supporting People—from April 2003. To pave the way to Supporting People, a new time-limited transitional Housing Benefit scheme will be introduced from April 2000. The current interim scheme will be extended to March 2000. The Compensation Scheme will then end. Research by Loughborough University into Housing Benefit and support charges was published on 22 July 1999. The research estimates that between £360 million and £480 million was spent during 1996–97 on ineligible support services. The research was unable to identify a precise figure due to the fact that LA's found it difficult to identify supported accommodation in their area. The transitional Housing Benefit scheme will generate the information on support services needed to successfully implement the long-term arrangements.

Other Notes

Housing Benefit and Council Tax Benefit subsidy expenditure recorded in this Account is payable to local authorities and certain other housing authorities under sections 140A to 140G of the Social Security Administration Act 1992, as inserted by paragraph 4 of Schedule 12 to the Housing Act 1996 and amended by section 10 of the Social Security Administration (Fraud) Act 1997. Provisions governing the calculation of subsidy and the preparation and certification of claims are contained in statutory instruments made in accordance with the Act.

The Summary of Outturn, Section H includes payments of £8,141,719,000 to local authorities, and Section C includes payments of £24,220,000 to other housing authorities which may be subject to adjustment in a subsequent year of account on receipt of audited claims.

Benefit Fraud

The Accounting Officer of the Department of Social Security is responsible for the propriety and regularity of the payments of Housing Benefit and Council Tax Benefit subsidy. The payments of subsidy recorded in this Account are supported by certified subsidy claims, prepared and calculated in accordance with the relevant regulations. Responsibility for the propriety and regularity of Housing Benefit and Council Tax Benefit awards to claimants, including the prevention and detection of fraudulent claims, lies with the authority making the award.

During the course of the 1995–96 financial year, the Department completed a review to estimate the extent of Housing Benefit Fraud. The review indicated that the estimated underlying level of fraud amounted to some £900 million a year, within a range of \pm £500 million. Although the level of undetected fraud cannot be quantified for each local authority, there must be an element of local authority expenditure on benefits which although prima facie valid may be later discovered to be induced by fraud. The regulations approved by Parliament governing the payment of subsidy contain provisions for such expenditure to be taken into account in the calculation of subsidy only when fraud has been detected. Until then it is expenditure incurred by local authorities on which subsidy is properly payable. The findings of the second National Housing Benefit Accuracy Review published in October 1998 by the Government Statistical Service estimated that £840 million in Housing Benefit is paid incorrectly. Confirmed fraud accounts for £180 million, while strong suspicion and mild suspicion account for £430 million and £90 million respectively. However it is not possible to state with an acceptable level of statistical certainty that there has been a change in the level of fraud and suspected fraud since 1995.

Other Notes—continued

Benefit Fraud—continued

The Department has taken a number of steps to encourage authorities to tackle fraud. From April 1993 authorities have been able to receive a direct financial reward for their increased efforts to stop payment of benefits to those not entitled to them. Authorities can share in any savings over and above individual thresholds specified for each authority. The Summary of Outturn, Line H shows that in 1998–99 anti-fraud incentive payments totalled £33.5 million. Since April 1994 those authorities who are doing little to combat fraud have faced subsidy reduction. During 1998–99 subsidy reduction affecting 6 authorities totalled £316,429 as shown in the Summary of Receipts, Lines C and H.

Weekly Benefit Savings are used as an indicator of the amount of programme expenditure saved as a result of fraud detection work. Savings are estimated by multiplying the amount of weekly incorrect benefit by a factor of 32 based on the number of weeks a fraudulent claim might have continued undetected. On this basis the reported benefit savings achieved by authorities, as shown in the table below indicate that these policies are having some success.

Years	Reported savings achieved
1993–94	£92m
1994–95	£171m
1995–96	£224m
1996–97	£307m
1997–98	£371m
1998–99	£244m

As a result authorities' claims for subsidy are lower than they would have been, had the incentive scheme not been in place. To further encourage detection of fraud, authorities are entitled to claim subsidy, in accordance with provisions made under the Social Security Administration Act 1992, on fraudulent overpayments they discover during the year. Authorities claimed subsidy on £64.2 million fraudulent overpayments of benefit discovered in 1997–98, the latest year in which fraudulent overpayments data is available.

The following Anti-Fraud measures were in operation during 1998–99:

**Housing Benefit Anti-Fraud Challenge Fund:* enables local authorities to bid for funds to introduce measures for tackling fraud. Since results from the first 2 years of the Fund showed that a targeted approach to visiting produced the greatest in-year returns of Weekly Benefit Savings £8 million was made available in 1998–99, the third and final year of the scheme, for visiting initiatives. Bids were received from 250 local authorities for which payments of £7.9 million were made.

**Housing Benefit Matching Service:* a data-matching service, sponsored by DSS, for Local Authorities. The national roll-out which began in November 1996 and has now been completed and all local authorities have now been seen or contacted and invited to join HBMS. Currently, of the 396 local authorities who have agreed to participate 364 local authorities have progressed to actual matching and receiving referrals.

**London Organised Fraud Investigation Team:* started in December 1996. It is managed by the Association of London Government (ALG) to target cross-London organised fraud. The DSS provided £649,000 start-up costs in 1996–97 and running costs of £907,000 and £858,000 in 1997–98 and 1998–99 respectively. As reported in the 1997–98 Account reviews by the Audit Commission and the Benefit Fraud Inspectorate identified management deficiencies and concluded that LOFIT was not meeting its objective and, therefore, the ALG with the support of DSS decided to close it down. Following an orderly run down LOFIT closed at the end of March 1999. Cases which had not been brought to a conclusion by the time of its closure were referred to Benefits Agency Security Investigation Service (BASIS) and to the Police.

Other Notes—continued

Benefit Fraud—continued

**Verification Framework:* will eventually standardise verification process and procedures across all local authorities. The Verification Framework provides a platform for secure and accurate administration by defining the minimum standards for collecting evidence when a claim is made for Housing Benefit/Council Tax Benefit, and the frequency of subsequent reviews/visits. It sets out the information which must be verified before benefit is paid, specifies what is acceptable as evidence and what checks must be made during the life of the claim. In 1998–99 £5 million was made available for Verification Framework set-up costs of which £4.9 million was paid to 84 authorities to implement the Framework. In addition a further £10 million was made available for the Verification Framework on-going costs of which £0.580 million was paid to 20 local authorities who were compliant with the Framework.

**Improving BA/LA liaison:* funding of £243,000 was made available to 17 authorities who participated in the joint Benefits Agency/LA initiatives to encourage closer working and improved liaison arrangements between BA and local authorities. A further £2.5 million will be made available to local authorities in 1999–2000.

**Housing Benefit Reviews:* since 1997, the Department has undertaken a programme of National and Local Benefit Reviews:

- * the National Housing Benefit Review (report published in October 1998) provided a more accurate and up-to-date estimate of the level of fraud and error in Housing Benefit;
- * the Local Housing Benefit Reviews: this includes the Large Scale Local Benefit Review, a 3 year project running from 1997–98 and involving 9 local authorities, the aim of which is to test the feasibility of measuring, over time, the changes in the levels of fraud and error at a local level; and the “Paper Exercise” a project which started in January 1998, involving 65 local authorities, the purpose of which is to identify the most successful anti-fraud strategies and activities, and provide a clear picture of how and where fraud is committed.

In 1998–99 £5 million was made available for the National and Local Reviews of which £1.3 million was paid to local authorities.

**Benefit Fraud Inspectorate:* their role is to examine and report on counter-fraud performance in the administration of social security benefits, including benefits administered by local authorities and the associated calculation of WBS. The Inspectorate will also identify, encourage and share good practices. During 1998–99 the Inspectorate published reports on 14 local authorities inspected. In 1999–2000 the Inspectorate expects to publish reports on 31 local authorities inspected and plans to begin inspections of a further 23 local authorities.

**Commencement of the Social Security Administration (Fraud) Act 1997:* The Social Security Administration (Fraud) Act 1997, most of which came into force on 1 July 1997, allows for information held by those who administer tax, Housing Benefit and Council Tax Benefit plus certain other Government information, to be used to combat fraud. It provides the Secretary of State powers to: (1) authorise the inspection of a local authority’s administration of Housing Benefit and Council Tax Benefit (powers to be exercised by the Benefit Fraud Inspectorate); (2) direct a local authority as to the standards it is to attain in the prevention and detection of fraud relating to Housing Benefit and Council Tax Benefit or otherwise in relation to the administration of those benefits; (3) require information on the attainment of standards; and (4) require an authority that does not attain the standards it has been directed to attain to contract-out some or all of its benefits administration or to forfeit part of its subsidy or both. Local authority inspectors will have powers to enter premises, view documents and interview persons to determine whether benefit is paid correctly. Benefit fraud becomes punishable by fines or imprisonment.

Other Notes—continued

Benefit Fraud—continued

**Remote Access Terminals (RATs):* As reported in the 1997–98 Account the use of RATs improved the validation and processing of claims and enabled local authorities to clear queries more quickly. The Department therefore decided to install RATs in all local authorities who requested them. The implementation programme is now almost complete with 321 terminals being installed by the end of March 1999. A further 26 terminals were installed by 1 June 1999.

**Royal Mail do-not-redirect:* the use of new fraud powers will permanently stop the abuse of the redirection service by benefit fraudsters. The Department has developed a “Do Not Redirect” service which was made available to all local authorities as from February 1999.

Forthcoming Anti-Fraud measures:

**Section 19 of the Fraud Act:* entitlement to benefit will be dependent on the claimant and partner providing documentary evidence of, or applying for, a National Insurance number. As from April 1999 this requirement will, for the first time, apply to HB/CTB. Initially a pilot will be run with full implementation across all local authorities from September 1999.

**Prosecution Incentivising:* the Department is currently running a prosecution pilot where selected local authorities can use its legal services to prosecute fraudsters. A similar scheme where Scottish local authorities can use the service of the Benefits Agency Central Support Unit, Scotland to prepare cases for the procurators Fiscal, commenced on 14 June 1999.

Projects for the future:

**Housing Benefit Computing Strategy Study:* on-going study to examine the options for linking local authority Housing Benefit/Council Tax Benefit systems with DSS. A series of short term measures such as RATs and HBMS have already been implemented. In the longer term, the “ONE” Pilots will provide the opportunity to test shared IT support for benefit processing in Local Authorities, Benefits Agency and Employment Service before decisions are taken on national implementation and how and when HB systems will be linked to the new DSS systems.

Benefit and Subsidy

The Department currently has under scrutiny 58 subsidy claims from authorities, relating to year 1997–98, which do not comply with the Income-related Benefits (Subsidy to Authorities) Order. In all cases the Department has approached the authorities concerned and requested that they provide such information and produce such records to enable their auditors to establish their correct subsidy entitlement. At the same time the Department has applied the Secretary of State’s powers provided in Section 140C(3) of the Social Security Administration Act 1992 to withhold subsidy. Subsidy totalling £20,241,549 has been withheld and, as such, will continue to be withheld from authorities until they have complied with the prescribed conditions as to audit. In the event of insufficient information being made available to enable auditors to verify subsidies claimed, the Department will, in order to finalise subsidy claims, use the Secretary of State’s powers provided in Section 140C(2) of the Act to estimate the amount of subsidy payable.

As reported in the 1997–98 Account the London Borough of Lambeth did not have adequate systems in place, nor provide sufficient documentary evidence, to support their 1991–92 to 1995–96 subsidy claims. As a result their auditor was unable to verify the amount of subsidy paid to that authority for those years and therefore qualified his opinion on the certificates for those claims.

Other Notes—continued

Benefit and Subsidy—continued

In December 1998 Lambeth accepted that the total amount of unverified subsidy, as estimated by the Department, amounted to £26,681,346. The Department recognised that total recovery in one year was not sustainable by the authority and agreed that repayment be made by monthly deductions from interim subsidy payments spread over a ten year period commencing 1 April 1996. On re-commencement of monthly deductions of £203,846; in January 1999, the Department returned £7,708,012 of the subsidy previously withheld leaving an outstanding balance of £19,338,846. Following resolution, in February 1999, of the 1996–97 subsidy claim the amount of unverified subsidy was estimated to be £4,853,147 and this, in accordance with the repayment agreement, was added to the outstanding balance thereby increasing the amount owed to £23,988,147. As a result monthly deductions were increased to £281,647 in February 1999, to be followed by 85 instalments of £278,900. By the end of September 1999 £2,437,793 had been recovered from the outstanding balance, leaving a balance of £21,754,200 still to be recovered.

The Department has further estimated that the 1997–98 subsidy claim included £671,759 of unverified subsidy and has reduced the claim accordingly.

Overpayments reviewed and reduced

It was noted in the Accounts for 1994–95 to 1997–98 that some authorities had overclaimed subsidy for 1993–94, 1994–95 and 1995–96 because they had claimed subsidy on gross rather than net overpayments where a lesser amount was properly payable for the same period. The Department has, therefore, approached all authorities to determine the subsidy incorrectly paid in respect of Income Support cases. Although subsidy may have been incorrectly paid in respect of non-Income Support cases the Department has no information currently available on which to estimate the level of these cases. For 1996–97 and subsequent years all cases, including non-Income Support cases, will be applicable. In addition to the £5,691,187 reported in the 1997–98 Account as being recovered in 1998–99 a further £3,235,132 was also recovered in 1998–99. The total subsidy previously overclaimed and subsequently recovered amounted to £8,926,319.

R. Lomax
Accounting Officer

29 September 1999

The Accounting Officer's Statement on the System of Internal Financial Control

This statement is given in respect of Appropriation Account Class XII Vote 2. As Accounting Officer for this Vote, I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting systems with an annual budget;
- procedures to review and agree budgets;
- preparation of regular financial reports which indicate actual expenditure against the forecasts;
- procedures to seek additional funds as necessary via Supplementary Estimates;
- local authority external auditors provide assurances to the Accounting Officer that monies have been correctly spent in accordance with legislation;
- procedures to address any issues raised by auditors including the withholding of unverified amounts of subsidy.

The department has an internal audit unit, which operates to standards defined in the Government Accounting Audit Manual. The work of the internal audit unit is informed by an analysis of the risk to which the department is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the department's Audit Committee and approved by me. At least annually, the Head of Internal Audit (HIA) provides me with a report on internal audit activity in the department. The report includes the HIA's independent opinion on the adequacy and effectiveness of the department's system of internal financial control.

My review of the effectiveness of the system of internal financial control is informed by the work of the internal auditors and the operational managers within the department who have responsibility for the development and maintenance of the financial control framework, and comments made by the external auditors in their management letter and other reports. Furthermore, my review of the effectiveness of local authorities in administering the Housing/Council Tax benefit schemes, is informed by the work of Departmental officials involved in targeted visits and the Benefit Fraud Inspectorate who have responsibility to examine and report on counter-fraud performance and to identify, encourage and share good practises. The Department has also introduced a Verification Framework which forms a platform for secure and accurate administration by determining minimum standards for collecting evidence when a claim is made for BH/CTB.

The review of the effectiveness of the system of internal financial control has highlighted no significant areas of weakness.

R Lomax
Accounting Officer

29 September 1999

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

I certify that I have audited the financial statements on pages 28 to 44 under the Exchequer and Audit Departments Acts 1866 and 1921.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 3 the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the statement on the system of internal financial control on page 45. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the appropriation account properly presents the expenditure and receipts of Class XII, Vote 2 and whether in all material respects the expenditure and receipts have been applied to the purpose intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, proper accounting records have not been kept, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 45 reflects compliance with Treasury's guidance "Corporate governance: statement on the system of internal financial control". I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of Opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

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

Opinion

In my opinion:

- the appropriation account properly presents the expenditure and receipts of Class XII, Vote 2 for the year ended 31 March 1999; and
- in all material respects the expenditure and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

John Bourn
Comptroller and Auditor General

30 November 1999

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

Department of Social Security: administration

Summary of Outturn, and the **Account** of the sum expended, in the year ended 31 March 1999, compared with the sum granted, for expenditure by the Department of Social Security on administration; for agency payments; expenditure incurred as part of the Welfare to Work initiative; expenditure on behalf of Department of Health; and for certain other services including grants to local authorities and voluntary organisations and other organisations and a payment to Cabinet Office, Class XVII, Vote 1.

Summary of Outturn

Section	Estimated			Actual		
	Gross Expenditure £000	Appropriations in Aid £000	Net Expenditure £000	Gross Expenditure £000	Appropriations in Aid £000	Net Expenditure £000
Department of Social Security						
A	280,228	308,299	(28,071)	268,346	307,014	(38,668)
B	59,545	73,062	(13,517)	52,504	73,383	(20,879)
C	15,638	1,051	14,587	15,246	1,027	14,219
D	2,514,812	714,804	1,800,008	2,468,364	714,371	1,753,993
E	244,125	240,632	3,493	237,596	241,393	(3,797)
F	208,633	547	208,086	204,016	642	203,374
G	29,664	1,221	28,443	28,760	1,308	27,452
H	12,013	—	12,013	7,904	—	7,904
I	6,133	—	6,133	1,265	—	1,265
J	9,700	—	9,700	5,486	—	5,486
K	1,250	—	1,250	—	—	—
L	1,900	—	1,900	1,900	—	1,900
Total	3,383,641	1,339,616	2,044,025	3,291,387	1,339,138	1,952,249

Account

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Administration				
A1 Direct expenditure: running costs	266,516	256,840	9,676	—
A3 Direct expenditure: capital	8,708	6,602	2,106	—
A5 Grants and transfers: capital	5,004	4,904	100	—
Information Technology Services Agency				
—Product and Service Provision				
B1 Direct expenditure: running costs	64,683	64,677	6	—
B2 Direct expenditure: other current	(21,000)	(22,927)	1,927	—
B3 Direct expenditure: capital	15,862	10,754	5,108	—
Information Technology Services Agency				
—Purchaser				
C1 Direct expenditure: running costs	15,554	15,057	497	—
C3 Direct expenditure: capital	84	189	—	105
Benefits Agency				
D1 Direct expenditure: running costs	2,497,967	2,452,796	45,171	—
D3 Direct expenditure: capital	16,845	15,568	1,277	—
Contributions Agency				
E1 Direct expenditure: running costs	241,903	235,213	6,690	—
E3 Direct expenditure: capital	2,222	2,383	—	161
Child Support Agency				
F1 Direct expenditure: running costs	205,233	201,029	4,204	—
F3 Direct expenditure: capital	3,400	2,987	413	—

Explanation of the Causes of Variation between Expenditure and Grant.

- A3 The main reason for the underspend is associated with the establishment of the Modern Service Programme (MSP). Initial MSP provision was primarily in running costs, with a small amount of capital, but as plans developed it appeared that there would be a need for additional capital expenditure in 1998-99. Further capital provision of £3 million was therefore allocated by means of virement from running costs elsewhere in Section A, but the MSP was unable to operate to confirmed figures until after approval of the Spring Supplementary Estimate which left insufficient time to procure IT equipment to the level forecast.
- B3 The underspend arises mainly from a reclassification of capital expenditure to running costs following the increase in the capitalisation threshold; the deferment, pending the resolution of administration issues, of the installation of a new PABX system, and from major slippages, due to operational considerations, in the progression of a number of technological network projects.

Account—continued

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
War Pensions Agency				
G1 Direct expenditure: running costs	28,918	27,797	1,121	—
G3 Direct expenditure: capital	746	963	—	217
Administration costs of measures to help unemployed people move from Welfare to Work				
H1 Direct expenditure: running costs	12,013	7,904	4,109	—
Administration costs of measures to help people with a disability or long term illness move into or remain in work				
I1 Direct expenditure: running costs	6,133	1,238	4,895	—
I3 Direct expenditure: capital	—	27	—	27
Administration costs of measures to help lone parents move from Welfare to Work				
J1 Direct expenditure: running costs	9,700	5,486	4,214	—
Administration costs of Childcare disregard				
K1 Direct expenditure: running costs	1,250	—	1,250	—
Payments to Cabinet Office (Class XVII, Vote 1)				
L1 Direct expenditure: running costs	1,900	1,900	—	—

Explanation of the Causes of Variation between Expenditure and Grant.

- H1 Mainly arises from the IT development and testing costs for the Jobseekers Allowance Payment System being less than expected as a result of changes in requirements and from the deferment of planned Archiving/Filestore work in favour of higher priority tasks.
- I1 The main reason for the underspend is linked to expenditure on Innovative Schemes. An allocation of £5 million was made from the sum available for the New Deal for the Sick and Disabled to finance the schemes over three financial years starting 1998-99. It was not possible to predict precisely how the programme of schemes would be taken forward and consequently the full allocation of £5 million was included in the 1998-99 grant although the actual expenditure was only £670,000. It is anticipated that a further £3.03 million will be spent on these projects in 1999-2000.
- J1 Whilst the budget for Lone Parents sits with DSS, the majority user in terms of expenditure is Employment Services. The underspend arises mainly from ES IT development expenditure being lower than estimated because of contractual complications; lower than expected client interview volumes; and problems recruiting advisors resulting in reductions in related expenditure, including salary costs and training expenses. Additionally programme and implementation slippages led to underspends on printing costs and ES Innovative Pilots.
- K1 The funding was originally set aside as Welfare to Work provision for the administrative costs relating to the implementation of the Family Credit Childcare measure, in particular IT enhancements. The work was completed ahead of planned timescales and from within existing funding. Therefore, the additional provision was not required.

Account—continued

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
Gross Total	£000			
<i>Original</i>	3,082,025			
<i>Supplementary</i>	<u>301,616</u>			
	3,383,641	3,291,387	92,764	510
			Surplus of Gross Estimate Over Expenditure <u>92,254</u>	
<i>Deduct</i>	Estimated	Realised		
Z Appropriations in Aid	£000	£000		Deficiency of Appropriations in Aid Realised
<i>Original</i>	1,109,694			
<i>Supplementary</i>	<u>229,922</u>			
	1,339,616	1,339,138		<u>478</u>
Net Total				Net Surplus
<i>Original</i>	1,972,331			
<i>Supplementary</i>	<u>71,694</u>			
	2,044,025	1,952,249		<u>91,776</u>
				Actual surplus to be surrendered <u>£91,776,492.44</u>

Explanatory Notes on Expenditure and Receipts

1 Expenditure items	Current	Capital
<i>Section A: Administration</i> [£268,346]	£000	£000
Social Security Headquarters—note i	171,033	3,540
Grant towards the cost of providing accommodation similar to Resettlement Units—note i	11,955	4,904
Four Independent Statutory Bodies—note ii	56,634	538
Grand in Aid—note iii	8,205	—
Other items—note iv	9,013	2,524
Total	256,840	11,506

Note i: Social Security Headquarters includes expenditure relating to supporting Ministers in the implementation of Policy, preparation and passage of legislation and provision of specialised services. It also includes grants to Voluntary Organisations/Local Authorities towards the capital and running costs of providing resettlement accommodation and support.

Note ii: The Department finances four Independent Statutory Bodies through this Vote. These are the Independent Tribunal Service, the Pensions Ombudsman, the Independent Review Service and the Central Adjudication Service.

Note iii: Grant in aid is paid towards the administrative costs of the Occupational Pensions Regulatory Authority. The Authority's accounts for 1998–99 are published separately as a White Paper Account (HC 550/98–99).

Note iv: Includes Public Service Pensions Levy, running and capital costs of official vehicles, Headquarters accommodation services and other miscellaneous expenditure appropriate to the Department of Social Security Corporate functions.

Section B: Information Technology Services Agency—Product and Service Provision [£52,504]

Direct expenditure and receipts—note i	32,744	836
Computer related expenditure	5,150	9,135
Accommodation related expenditure	3,856	783
Total	41,750	10,754

Note i: Information Technology Services Agency direct expenditure includes the running and capital costs associated with the computing and communication technology requirements of Department of Social Security, its Agencies and other Government Departments.

Explanatory Notes on Expenditure and Receipts—continued

1 Expenditure items—continued	Current	Capital
Section C: Information Technology Services Agency—Purchaser [£15,246]	£000	£000
Expenditure represents the administrative cost of providing a strategy for the Department's information technology infrastructure, the definition of policies and standards and the regulation and management of a competitive supply of information technology services.	15,057	189
Section D: Benefits Agency [£2,468,364]		
Cost of the administration of Social Security Benefits—note i	2,226,993	7,615
Accommodation related expenditure	225,803	7,953
Total	<u>2,452,796</u>	<u>15,568</u>
<i>Note i: The Benefits Agency provides for the running and capital costs of the administration of Social Security benefits including the cost of instrument of payment services provided by Post Office Counters Ltd. and Girobank plc.</i>		
Section E: Contributions Agency [£237,596]		
Expenditure on the cost of collecting National Insurance Contributions, ensuring compliance with National Insurance Contribution law, and the maintenance of accurate National Insurance Contribution records.	235,213	2,383
Section F: Child Support Agency [£204,016]		
The administrative cost of assessing, regulating and enforcing child maintenance contributions, including the provision of a collection service for parents.	201,029	2,987
Section G: War Pensions Agency [£28,760]		
The costs of administering pensions, allowances and welfare support for War Pensioners and War Widows and of maintaining the Ilford Park Polish Home.	27,797	963
Section H: Administration costs of measures to help unemployed people move from Welfare to Work [£7,904]	7,904	—
Section I: Administration costs of measures to help people with a disability or long term illness move into or remain in work [£1,265]	1,238	27
Section J: Administration costs of measures to help lone parents move from Welfare to Work [£5,486]	5,486	—
Section K: Administration costs of Childcare disregard [£NIL]	—	—
Section L: Payment to Cabinet Office (Class XVII, Vote 1) [£1,900]		
The costs associated with the Machinery of Government change which saw responsibility for the Women's Unit passing from Department of Social Security to Cabinet Office	1,900	—

Explanatory Notes on Expenditure and Receipts—continued

2 Receipts payable to the Consolidated Fund	Estimated £000	Realised £000
Receipts of classes not authorised to be used as Appropriations in Aid	20,910	22,742
Actual sum payable separately to the Consolidated Fund		<u>£22,742,397.52</u>

Details of Receipts

	Current	Capital
(i) Receipts of classes authorised to be used as Appropriations in Aid		
(a) Receipts from the National Insurance Fund for the estimated cost of administering National Insurance Benefits	692,501	—
(b) Receipts from the National Insurance Fund for the estimated cost of collection and administration of contributions in Great Britain	217,532	—
(c) Recovery from the revenue collected in combined National Insurance contributions of the estimated administration costs of collecting the sum allocated to the National Health Service	11,924	—
(d) Allowable and non allowable running cost related receipts for services to other Government Departments and service providers	51,111	—
(e) Value Added Tax	98,596	—
(f) Other Appropriations in Aid (Note Below)	14,977	2,497
(g) Receipts from the sale of the Departmental Estate	—	250,000
Total	<u>1,086,641</u>	<u>252,497</u>

Note:

Item (f) comprises receipts from services carried out by the Department of Social Security on behalf of public and private sector bodies and members of the public, receipts from third parties for uninsured losses, receipts from staff for private telephone calls and telemessages, recovery of law costs from defendants, receipts from sales of obsolete machinery, equipment, official vehicles, surplus land, buildings and furniture, amounts collected from residents and visitors to the Polish Hostel, receipts from sub-let accommodation, receipts from the Department for Education and Employment (Training) in respect of Modern Apprenticeships, other departments/organisations in respect of outward secondments, mortgage lenders, recoveries from staff for the administration cost of making attachment of earnings orders, receipts from staff towards the cost of private use of official vehicles, receipts from applicants for services provided by CSA, and receipts from Department for Education and Employment in respect of New Deal subsidy and training payments.

(ii) Receipts of other classes		
(a) Levy imposed on occupational and public service pension schemes	12,324	—
(b) Headquarters accommodation services	5,000	—
(c) Contributions Agency accommodation services	2,400	—
(d) Miscellaneous	3,018	—
Total	<u>22,742</u>	<u>—</u>

Explanatory Notes on Expenditure and Receipts—continued

Losses Statement	£000
Total (5,296 cases)	<u>2,807</u>

Details

A loss arose as a result of the non-recovery of residual monies owed to this Department by other Government Departments for their minor occupancy of DSS accommodation (£198,371.46).

Included in the above is an estimated £819,000 relating to expenditure incurred on the purchase of furniture and fittings and also on minor enhancements to DSS buildings which could have been provided under the PRIME contract.

Special Payments	
Total (1,528,135 cases)	<u>33,832</u>

Details

Special payments include 1,500,000 compensation cases totalling £21,830,866.21 in respect of delayed payments of Age Related Rebates made to Pension Providers on behalf of their clients who opted out of SERPS in favour of a personal pension. Whilst the total amount shown is accurate, the number of cases is estimated. This is due to program limitations on the NIRS 2 computer system.

Other Notes

Receipts from the National Insurance Fund shown in this Account consists of two elements, (i) the initial estimate of costs for the year in question and (ii) adjustments to account for differences between the initial estimate and revised or final estimates for previous years.

Receipts and payments of the National Insurance Fund are published separately in a White Paper Account.

On 1 April 1998 the Department, under the PRIME (Private Sector Resource Initiative for the Management of the Estate) project, transferred property valued at £382 million, including £67 million of furniture and fittings, to Trillium who now provide the Department with serviced accommodation. The Department received a cash sum of £250 million from Trillium (which is recorded in note 2g) on commencement of the contract. The additional consideration will be received in the form of reductions in future rental charges.

This account includes £20 million recovered from the National Insurance Fund by way of increased Administration Costs arising from the compensation payments paid to personal pension providers. Following Treasury advice this should not have been recovered and the National Insurance Fund will be reimbursed in future financial years.

Both the Debt Accounting and Management System and the Customer Accounting and Payments Strategy were abandoned during the 1999–2000 financial year. If any administration loss arises from these decisions an appropriate note will be included in the Appropriation Account for the financial year in question (see also Class XII, Vote 1).

Details of Expenditure

Subhead B1	Estimated	Actual	Saving	Excess
Information Technology Services Agency	£000	£000	£000	£000
—Product and Service Provision				
Running costs	308,015	309,913	—	1,898
Total Expenditure	308,015	309,913	—	1,898
<i>Less</i>				
Running cost and other related receipts from DSS	243,332	245,236	1,904	—
Net Total	64,683	64,677	6	—
		Net Saving	<u>£6</u>	

Subhead B2	Estimated	Actual	Saving	Excess
Information Technology Services Agency	£000	£000	£000	£000
—Product and Service Provision				
Other Current	15	15	—	—
Total Expenditure	15	15	—	—
<i>Less</i>				
Non allowable running cost related receipts from DSS	21,015	22,942	1,927	—
Net Total	(21,000)	(22,927)	1,927	—
		Net Saving	<u>£1,927</u>	

R Lomax
Accounting Officer

29 September 1999

Statement on the System of Internal Financial Control

This statement is given in respect of the Appropriation Account for Class XII, Vote 3.

As Accounting Officer for this vote, I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned. I carry out this responsibility in conjunction with the Executive Agencies' principal Accounting Officers, the relationship between us being set out in a written statement.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- a. financial systems which include:
 - (i) comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Departmental Board;
 - (ii) regular reviews by the Departmental Board of periodic and annual financial reports which indicate financial performance against the forecasts; and
 - (iii) setting targets to measure financial and other performance.
- b. procurement systems with clearly defined investment guidelines to ensure that the Department obtains the goods and services that it requires in the most cost effective manner;
- c. payroll system controls to ensure that staff remuneration and reimbursement payments are made correctly and timeously; and
- d. controls over the operation of computer systems and clerical procedures to ensure that secure systems are developed to meet business and accounting requirements and that adequate contingency arrangements exist.

The Department has an internal audit unit, which operates to standards defined in the Government Internal Audit Manual. The work of the internal audit unit is informed by an analysis of the risk to which the Department is exposed, and annual internal audit plans are based on the analysis. The analysis of risk and internal audit plans are endorsed by the Departmental Audit Committee and approved by me. At least annually, the Director of Internal Audit (DIA) provides me with a report on internal audit activity in the Department. The report includes the DIA's independent opinion on the adequacy and effectiveness of the Department's system of internal financial control.

My review of the effectiveness of the system of internal financial control is informed by the work of the internal auditors, the Audit Committee which oversees the work of the internal auditor, the executive managers within the Department who have responsibility for the development and maintenance of the financial control framework, and comments made by the external auditors in their management letter and other reports.

The review of the effectiveness of the system of internal financial control has highlighted no significant areas of weakness.

R Lomax
Accounting Officer

29 September 1999

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

I certify that I have audited the financial statements on pages 47 to 55 under the Exchequer and Audit Departments Acts 1866 and 1921.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 3 the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the statement on the system of internal financial control on page 56. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the appropriation account properly presents the expenditure and receipts of Class XII, Vote 3 and whether in all material respects the expenditure and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, proper accounting records have not been kept, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 56 reflects compliance with Treasury's guidance "Corporate governance: statement on the system of internal financial control". I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of Opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and receipts have been applied to the purposes intended by Parliament and 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 financial statements.

Opinion

In my opinion:

- the appropriation account properly presents the expenditure and receipts of Class XII, Vote 3 for the year ended 31 March 1999; and
- in all material respects the expenditure and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

John Bourn
Comptroller and Auditor General

2 December 1999

National Audit Office
157–197 Buckingham Palace Road
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