

Social Fund Account 2012-13

Social Fund Account 2012-13

Presented to Parliament pursuant to Section 167(4) of the Social Security Administration Act 1992

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Foreword

Background information

The Social Fund was established in 1987 and is controlled and managed under section 167 of the Social Security Administration Act 1992. Section 138(1) of the Social Security Contributions and Benefits Act (SSCBA) 1992 enables payments of prescribed amounts to be made out of the Fund to meet, in defined circumstances, maternity and funeral expenses and payments of Budgeting Loans, Crisis Loans and Community Care Grants in accordance with directions given or guidance issued by the Secretary of State.

Section 138(2) of the SSCBA provides for payments to enable people who satisfy prescribed qualifying conditions to meet expenses for heating incurred or likely to be incurred during periods of cold weather. Regulations provide for payments from the Social Fund to be made to certain customers following a period of cold weather or when cold weather is forecast. Winter Fuel Payments were introduced in 1997-98 to provide automatic help to pensioner households with fuel bills to pay.

Legislation was introduced with effect from April 1998 that allowed the recovery of Social Fund overpayments.

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

Reform of the Social Fund from 1 April 2013

The Welfare Reform Act was signed into law in March 2012 and delivers significant reform of the discretionary Social Fund. Crisis Loans and Community Care Grants are to be abolished from 1 April 2013 and replaced with locally based support to be delivered by local authorities in England and the devolved administrations in Wales and Scotland.

Regulated payments for Maternity, Funeral, Cold Weather and Winter Fuel expenses will remain in place, and the Department for Work and Pensions will also continue to deliver Budgeting Loans until full rollout of Universal Credit to help those still receiving the current income-related benefits.

The major reforms in the Welfare Reform Act 2012, such as the pathfinder implementation of Universal Credit, do not take effect until April 2013. Consequential policy changes to regulated Maternity, Funeral and Cold Weather payments because of the Welfare Reform Act will be made in 2013-2014.

In the meantime, policy changes affecting Social Fund administration in the 2012-2013 year are highlighted below against each category of payment.

Categories of Payments

Budgeting Loans and changes in 2012-13

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

From 8 May 2012 all eligible applicants are able to have a loan for funeral or maternity expenses, in addition to the existing categories a Budgeting Loan can cover.

Crisis Loans and changes in 2012-13

This is the final year of the Crisis Loan scheme.

On all applications made up to and including 31 March 2013, interest free loans may be made to any customer, primarily to help to relieve a serious risk to health or safety of customers and their dependants.

From 9 April 2012, where someone lives in the household of relatives or friends, the maximum Crisis Loan award for daily living expenses is based on 30 per cent of their benefit personal allowance rate. Householders and people without accommodation continue to receive awards based on 60 per cent.

This change helped ensure that spending was sustainable ahead of the transfer of funding to the new local provision.

Community Care Grants and changes in 2012-13

This is the final year of the Community Care Grant scheme – it is abolished from 1 April 2013. For all needs that relate to the period up to and including 31 March 2013, payments may be made to promote the community care of customers qualifying for Income Support, Employment and Support Allowance (Income Related), Pension Credit or Jobseekers Allowance (Income Based). The main purpose is to help vulnerable groups lead an independent life in the community rather than go into institutional or residential care, or help such people re-establish themselves in the community following a period of such care; ease exceptional pressures on families; and to help with certain urgent travelling expenses.

Sure Start Maternity Grants and changes in 2012-13

The Sure Start Maternity Grant is available to families receiving Income Support, Employment and Support Allowance (Income Related), Job Seekers Allowance (Income Based), Working Tax Credit where a disability or a severe disability element is included in the award, Pension Credit, and Child Tax Credit at a rate higher than the family element for each child expected, born, the subject of a parental order or a residence order, (in certain circumstances), on or after 11 June 2000. The Grant is worth £500 in respect of babies due, born, adopted or subject of a parental order on or after 16 June 2002.

Since 2011 the Grant has been limited to the first child for babies born on or after the 11 April 2011. A further associated policy change was introduced in 2012-2013 to allow payment of the Sure Start Maternity Grant for the children of subsequent multiple births where there is already a child under 16 in the family.

Funeral Expenses Payments

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

Cold Weather Payments

Cold Weather Payments are payable to customers in receipt of Pension Credit, Income Support, Employment and Support Allowance (Income Related), or income based Jobseekers Allowance who also have a disability, or a pensioner premium, or who have a disabled child or a child less than five years of age. Customers receive payments of £25 (maintained at a level of £25 for the fifth consecutive year) for each period of seven consecutive days during which the average temperature was or was forecast to be zero degrees Celsius or below in areas where the customer lives.

Winter Fuel Payments

The Winter Fuel Payments scheme was introduced by the Secretary of State by Regulations made in exercise of powers conferred by section 138(2) of the Social Security Contributions and Benefits Act 1992. These regulations, which came into force on 16 January 1998, allow for payments to pensioner households, where at least one person qualified by age in the qualifying week. In 2012-13 the qualifying week was week commencing 17 September 2012.

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

The total amount payable to a person aged 60-79 years living alone in their own home was £200 this year (£100 if they shared a home with another eligible person aged 60-79). For people aged 80 or over the amount payable was £300 this year (£150 if they shared a home with another eligible person aged 80 or over). Where there is only one person in the household who is entitled, the full Winter Fuel Payment is made. If there is another eligible person in the household who qualifies, the lower level of £100 is made to the eligible person 60-79 and £200 is payable to the eligible person aged over 80. The qualifying age for Winter Fuel Payments for men and women is increasing in line with the increase in women's state pension age.

Financial performance

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

During 2012-13 £564 million of recoverable loans were issued, which added to the debt owed to the Fund. Recoveries of loans paid back into the Fund during the year were £601 million.

During 2012-13 £44 million of Funeral Expenses Payments were issued, £0.4 million was recovered this year and £49 million was written off the total Funeral Expenses Payments debt as there was no estate to recover from.

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

In 2012-13 there was no additional HM Treasury investment into the Social Fund. There was a risk that this, accompanied with potentially a high demand for Social Fund Loans as the major reforms approached in April 2013, could give rise to a deficit on the Fund. The demand management measures mentioned above, coupled with a sustained resource and focus on recovery work, served to ensure the continued solvency of the Fund.

Other impacts of the strong financial performance in the year included the reduction in the debt stock for the second year running and the ability to partially repay previous investment into the Fund by the HM Treasury. £186 million of the £263 million investment into the Fund in 2009-10 and 2010-11 has now been repaid.

The Social Fund closing bank balance will vary from year to year. The policy intention is to maintain a minimum balance which will provide working capital to contribute to, for example, an unexpected surge in Cold Weather Payments late in the financial year beyond the date for the Supplementary Estimate. The value of this minimum balance was set at £25 million with the approval of HM Treasury.

The standing balance on the Fund has increased by £53 million to £143 million in 2012-13. This is due to additional funds being drawn down to cover potential Cold Weather Payment expenditure at the end of the year. The country experienced the coldest March temperatures for over 50 years and there was potential for further large triggers in the final two weeks of the month. The forecast triggers did not materialise and the cash surplus will be run down in April 2013 as a matter of course.

Secretary of State's report

The Secretary of State is required by section 167(5) and (6) of the Social Security Administration Act 1992 to prepare an annual report on the Social Fund and to lay a copy of the report before each House of Parliament. The latest annual report will be presented to Parliament in July 2013 and will give a detailed account of the activities and expenditure on the Social Fund for 2012-13.

Basis of preparation of accounts

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

The HM Treasury Direction has been brought up to date with minor changes. The requirement for the continued production of the Account will be kept under review with HM Treasury.

Audit arrangements

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

Statement of Accounting Officer's responsibilities

Under the Social Security (Administration) Act 1992, HM Treasury has appointed me, the Permanent Secretary of the Department for Work and Pensions, as the Accounting Officer for the Social Fund and has directed me to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on a receipts and payments basis (including a Statement of Balances), and are properly presented, with notes to support the receipts and payments statement and the debt position.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual*, (FRM), and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* (FRM) have been followed, and disclose and explain any material departures in the accounts; and
- prepare the Account on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable for keeping proper records and for safeguarding the Social Fund's assets, are set out in *Managing Public Money*, published by HM Treasury.

Robert Devereux
Accounting Officer

24 June 2013

The Social Fund Governance Statement

1 April 2012 – 31 March 2013

Introduction

The administration and governance of the Social Fund during 2012-13 has been against the backdrop of planning for the most far-reaching reforms to impact the Fund in its current guise since 1988.

The Welfare Reform Act 2012 abolishes key components of the discretionary Social Fund from April 2013. From 1 April 2013, Community Care Grants and Crisis Loans will no longer exist. Local authorities in England, and the devolved administrations in Scotland and Wales will be implementing their own systems of local welfare provision with effect from this date.

The planning for the reforms have been conducted under the auspices of a formal project – the Social Fund Reform Project. The Project has effectively managed the the transfer of funds to Local Authorities and the Devolved Administrations for the delivery of Local Welfare Provision from April 2013.

Other associated key deliverables within the year have been the planning for the closure of the Independent Review Service and the Out of Hours Service, the communications strand for both staff and claimants and also the engagement with Human Resources (HR) to manage redeployment opportunities for Social Fund staff.

As the £1,200 million debt stock remains with the Department for Work and Pensions it is essential that the reforms, along with the phased introduction of Universal Credit in 2013-14, are impacted to ensure Social Fund recoveries can continue to be collected in a timely and efficient manner. To that end the Universal Credit Programme has adopted the issue of ensuring recoveries can continue when customers migrate on to Universal Credit.

The financial position will again be closely monitored to ensure any remedial action, arising from the impacts of these reforms, can be put in place swiftly with the objective of maintaining the solvency of the Fund.

Delivery

Notwithstanding the considerable amount of planning that has been required to ensure the effective transition to Local Welfare Provision, the Department ensured the Fund continued to provide help in the form of over 3 million discretionary loans and grants in 2012-13.

Additionally around 13 million Winter Fuel Payments and 6 million Cold Weather Payments were paid to eligible people.

As referred to in the Foreword continued investment in recovery work has once again resulted in over £600 million of debt being recovered in the year. This has a number of positive outcomes;

- i contributes to a reduction in the overall debt stock;
- ii allows for further repayment of £73 million to HM Treasury of the SR07 resource provided for the Social Fund; and
- iii ensures the continued solvency of the Fund.

System of control

The Corporate Governance Code¹ and *Managing Public Money* describe the role of an Accounting Officer and the need for the Accounting Officer to be responsible for the management and control of the resources used in their organisation. The Governance Statement is a key feature of both the Department's Annual Report and Accounts and the Social Fund White Paper Account. It demonstrates how these duties have been carried out. Completion of the Statement is the responsibility of the Accounting Officer.

¹ Corporate Governance in Central Government Departments; Code of Good Practice 2011

This Statement has been endorsed by the Social Fund Management Group and in turn by the Sub-Committee of the Departmental Audit Committee, (DAC). The Sub-Committee is established by the Accounting Officer as a formal Sub-Committee of the Departmental Audit Committee to support in the discharge of his overall accountabilities as described in the HM Treasury *Managing Public Money*.

The Sub-Committee is chaired by a non-executive member, Bill Griffiths. The Sub-Committee's responsibilities include advice to the Departmental Audit Committee and Accounting Officer on the comprehensiveness of assurances and integrity of the Social Fund White Paper Account including the accounting policies and the process for review of the accounts prior to submission for audit.

The Sub-Committee will also consider the levels of error identified, resulting planned activity, the results of both internal and external audit of the respective accounts and a review of the management responses to resolving related significant control challenges.

It can make recommendations to management on potential new control challenges (including significant); and to the Departmental Audit Committee on the appropriateness of accounts for signature. The Sub-Committee reports to the Departmental Audit Committee during the year and also provides an Annual Report summarising its conclusions from work completed during the year.

The Department's Executive Team, which I chair, has collective responsibility for the management of the Department and its business, in line with ministers' aims and the business strategy set by the Departmental Board.

Detail of Board activity is available within the Departmental Governance Statement.

The Departmental Audit Committee receives regular reports on the Department's plans to tackle and clear the Department's control challenges (including the key ones pertaining to the Social Fund). The Departmental Governance Statement again incorporates updates on these and also provides the required declarations around Board Attendance and that there are no conflicts of interest between the members of the Board and its Committees and the Department.

Compliance with the Corporate Governance Code

The Department's Board is required to ensure that the Department complies with the provisions in the Corporate Governance Code or, where it has not, explains the reasons for that – the comply or explain approach. The Board is satisfied that the Department has complied with the Code.

The Departmental Audit Committee now provides the overall independent view as to the appropriateness, adequacy and overall value for money of the governance, risk, control and associated assurance processes to support the Social Fund White Paper Account. The Social Fund account qualification is considered to be a significant control challenge by the Committee who monitor the work being done through quarterly progress / update reports.

The Department's Operational Executive Team have also considered Quarterly Internal Audit updates and the Risk, Controls and Compliance Dashboard. Operational Executive Team also receive regular monthly management accounts including financial analysis and oversight of the Social Fund.

Risk, controls and compliance

The Department's Finance Director General and Finance Operations Director have specific accountabilities for Social Fund management to ensure that systems are in place to effectively manage Social Fund risks. The Finance Director General provides assurance to the Accounting Officer on the effectiveness of the risk management arrangements through a Letter of Assurance.

The system of internal control within the Social Fund is currently based on a framework of legislative duties, management information, financial regulations and the process of accountability and delegation as operated throughout the Department.

A dedicated team within Finance Operations provide oversight and control over the financial management of the Social Fund and work with a range of stakeholders across the Department to drive improvement activities.

The Independent Review Service, which is independent of the Department, reviews decisions made by the Social Fund Caseworkers and during 2012-13 worked closely with the Department to improve decision making.

The Internal Audit Division provides overall assurance over key areas of Departmental performance and during 2012-13 they undertook reviews of a number of Social Fund processes.

Audit and Other Reports to Management

In the year the Internal Audit Division undertook reviews of the Quality Assurance Framework, Social Fund Debt and the Social Fund Reform Project.

The Quality Assurance Framework was given a 'Reasonable' assurance rating and the three recommendations are being acted upon. The overall finding confirmed that the Quality Assurance Framework operates effectively in the operational environment and has had an impact in the improved performance on decision-making seen in 2011-12 and sustained in 2012-13.

The Social Fund Debt review provided a 'Limited' assurance with the five recommendations covering the ongoing processes for identifying, referring and ultimately recovering Passported Debt. Progress has already been made in a number of areas and a Task and Finish Group has been established to address the recommendations as a whole.

Internal Audit has conducted two reviews of the Social Fund Reform Project considering the overall position and also the engagement with Local Authorities over the replacement Local Welfare Provision initiatives. Both reviews provided 'Reasonable' assurance ratings.

Performance of the Social Fund is reported to Parliament in the Annual Report on the Social Fund by the Secretary of State for Work and Pensions. The Social Fund Commissioner, as Head of the Independent Review Service, has been an important stakeholder and his Annual Report for 2012-13 is due to be published in July 2013.

From April 2013, following the large scale reforms of the Social Fund as enshrined in the Welfare Reform Act 2012, the review duties will pass to the Independent Case Examiner.

Risk assessment

For the 2011-12 Governance Statement three overall categories of significant risk were highlighted;

- Regularity
- Debt
- Financial Position

The issues of Regularity and Debt were key components of the Account Qualification in 2011-12. They were identified as significant control challenges for 2012-13 and have been reported to the Departmental Audit Committee during the year. The Department has made positive progress in both areas and the Regularity control challenge has been resolved during this year.

Following investigations into the issues on Social Fund debt reported in the 2011-12 Account, a number of accounting adjustments have been made and these are detailed further below and in the Notes to the Account. As these adjustments go back to 2006-07 it has been decided to restate the accounts for these years in order to properly present brought forward debt balances and comparative figures.

The financial position has been effectively managed during the year and continued close monitoring and attention will be essential as the Fund changes significantly from April 2013.

Significant risk resolved: regularity

Each year, the National Audit Office test the Department's compliance with Secretary of State directions and regulations. They routinely test samples of cases. This includes checking the quality of decision making and adequacy of documentation. A value of most likely error is estimated from the test results.

This year, the National Audit Office have estimated the value of most likely error to be £20.9 million, 0.68 per cent (2011-12: £45.6 million, 1.47 per cent) for Social Fund awards. Consequently, the Comptroller and Auditor General has not qualified his opinion on regularity within the account.

a Document Management

Issue: The business had traditionally faced a significant challenge in the storage, retention and retrieval of customer documentation. The ability to retrieve original documentation when requested is a fundamental business requirement. Part of this retrieval is the National Audit Office regularity sample request where failure to locate documentation has, in previous years, contributed to the Social Fund Account Qualification.

Resolved: The business has established clear, well managed processes for both scanning and retrieval of documents, together with further refinements to procedures for the retrieval of voice recordings. This has enabled faster and more efficient document retrieval to take place as it is required, reducing the number of case files that couldn't be located when requested to a negligible level.

b Quality of Decision Making

Issue: Errors in decision-making had been identified by the National Audit Office in their regularity sample selections, contributing to the Regularity Qualification on the Social Fund Account.

Resolved: Embedding the Quality Assurance Framework within the business and applying focused guidance and training has improved the quality of decision making to make award payments in accordance with Secretary of State directions.

Continuing Review:

The reduction in the value of most likely error and assurances gained from the Internal Audit review of the Quality Assurance Framework identify strengthened controls that have mitigated the regularity risk. Consequently, the Department no longer considers regularity to be a significant control challenge.

The regularity position will, however, remain under review and will continue to feature on the Social Fund risk register. This will ensure the progress seen to date is embedded into the business and further improvements are identified and developed.

Debt

Inability to sufficiently corroborate the £1,200 million debt balance would lead to the continued qualification of the Notes to the Account.

a Debt Reconciliation

Issue: The detail of customer information, including loans and repayments, is held in the Social Fund Computer System, (SFCS), and should be reconcilable to the accounting information held in the Central Payments System, (CPS).

At the end of 2011-12 the net difference between the two amounted to an estimated £17.1 million (1.4 per cent of the closing 2011-12 debt stock, Loans and Funeral Expenses Payments, of £1,229 million). The gross difference, resulting from opposing variances in the loan types, stood at £36.3 million, 3 per cent.

Action: A series of workshops have been held, drawing on cross-departmental expertise, which have focused on identifying the main elements that contribute to the different balances of debt reported on the two systems.

A number of accounting errors going back as far as 2006-07 have been identified and are detailed in Note 13. Whilst small in total at £21 million compared to the total of expenditure and income in the period this amount clearly makes up a sizeable element of the debt difference. As such the accounts have been re-stated to correct for these errors and the net difference for Budgeting Loans and Crisis Loans now stands at £1.6 million, 0.13 per cent.

The gross difference as at 31 March 2013 stands at £23.2 million, 1.95 per cent, and work continues to establish how much of this relates to historic mis-mapping between the loan types.

Scrutiny and reconciliation over the smaller value of Funeral Expenses Payments debt has also led to an accounting adjustment for which the Department sought HM Treasury approval as it reduced the level of debt in the accounts by £7 million. This now equates the value of customer debt shown in the accounts to that held in SFCS at £15 million.

Plans and resources are in place to address the remaining difference between the two systems across 2013-14.

b *Passported Debt*

Issue: It has previously been identified that there were inadequate procedures for the recording of Social Fund overpayments arising when the recipient of a Social Fund grant is no longer eligible due to no longer qualifying for the underlying qualifying benefit.

The relevant award types are Community Care Grants, Sure Start Maternity Grants and Cold Weather Payments. In addition Sure Start Maternity Grants can also be awarded if the claimant is in receipt of particular Tax Credits, (described in paragraph 2.4 of the Foreword), administered by HM Revenue & Customs. Finally there are circumstances whereby Winter Fuel Payments can become recoverable, for example, if a recipient were to have spent more than 13 weeks in a nursing home.

Action: The Department has now formulated a mechanism for establishing an estimate of the omitted debt that arises in such circumstances. The central estimate covering the Department for Work and Pensions administered awards, other than Winter Fuel Payments, for the three years 2010-11 to 2012-13 is £9.5 million, (with a lower and upper level of £4.2 million and £12.9 million).

The previous methodology for estimating omitted debt arising from changes in retrospective Tax Credit adjustments, as administered by HM Revenue & Customs, provides a figure of £1 million for the three years 2010-11 to 2012-13. Additionally a sample of over 200 cases was reviewed by HM Revenue & Customs and this identified no instances of omitted debt. As such the level of omitted debt in these circumstances is estimated as being within the range of zero to £1 million. Further consideration is also being given to the viability and value for money of building an appropriate routine with HM Revenue & Customs where Tax Credits are the qualifying benefit.

Winter Fuel Payments are not defined as Passported Debt as such, due to the eligibility criteria not being benefit-related. There are, however, instances of overpayments as customer circumstances change and, therefore, a risk of omitted debt arising. The risk is deemed low due to, in part, the degree to which checks and controls to prevent overpayments are embedded in the business. A sample has been reviewed which suggests a non-referral rate of 21 per cent. Applying this rate to the three years in question provides an omitted debt figure of £1.4 million.

The results of the Internal Audit review of Social Fund debt will be taken into consideration, when determining the optimum business as usual approach for identifying, recording and referring instances of Passported debt.

Financial position

The Solvency of the Fund

Issue: There was a significant risk that the demand for Social Fund loans may increase due to the forthcoming abolition in April 2013 of Crisis Loans and Community Care Grants. Close monitoring and financial management is required in order to ensure the continued solvency of the Fund.

Action: Sustained resource has been assigned to recovery work, along with the introduction of smarter ways of working, and this has resulted in the high levels of loan recoveries seen in 2011-12 being repeated this year. Increases in demand have not been marked and it is expected that there will be a further overall reduction in the debt stock and a £73 million contribution to repaying funds previously provided by the HM Treasury.

The solvency of the Fund will remain a risk in coming years during the substantial reforms and focus will remain on both demand and recovery measures.

Robert Devereux
Accounting Officer

24 June 2013

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

I certify that I have audited the financial statements of the Social Fund White Paper Account for the year ended 31 March 2013 under the Social Security Administration Act 1992. The financial statements comprise: the Receipts and Payments Account (including the Statement of Balances) and notes relating to receipts and payments and the debt position. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Social Security Administration Act 1992 and HM Treasury directions made thereunder. My responsibility is to audit, certify and report on the financial statements in accordance with the Social Security Administration Act 1992. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Social Fund and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Social Fund; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword and Governance Statement to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

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

Basis for qualified opinion on financial statements

The evidence available to me was limited as I could not be provided with support for the breakdown of transactions that comprise the debt balance. As a result, I was unable to obtain sufficient appropriate audit evidence to support the completeness, existence and valuation of £1,205 million of debt reported in the notes to the financial statements.

Qualified opinion on financial statements

Except for the effects of any adjustments which might have been determined to be necessary had I been able to obtain sufficient, appropriate audit evidence over debt balances, in my opinion:

- the financial statements properly present the receipts and payments of the Social Fund the year ended 31 March 2013 and the debt position at that date; and
- the financial statements have been properly prepared in accordance with the Social Security Administration Act 1992 and HM Treasury directions issued thereunder.

Details of the reasons for my qualified opinion are set out in my accompanying report.

Opinion on other matters

In my opinion, the information given in the Foreword and Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect solely of the limitation on my work relating to debt balances:

- I have not obtained all the information and explanations that I require for my audit; and
- certain accounting records are not adequate to support the transactions comprising the debt balance.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Amyas C E Morse
Comptroller and Auditor General

25 June 2013

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Report by the Comptroller and Auditor General

Introduction

The Department for Work and Pensions (the Department) is responsible for controlling and managing the Social Fund under the Social Security Administration Act 1992. The Social Fund White Paper Account records payments made to customers in accordance with Directions issued by the Secretary of State for Work and Pensions under the Social Security Contributions and Benefits Act 1992. These payments can be split into two distinct categories:

a Discretionary Awards

These awards comprise Budgeting Loans, Crisis Loans and Community Care Grants. Payments are made from a cash-limited budget, which Social Fund staff must consider when deciding whether to make a payment and how much to award. Discretionary awards are governed by Directions issued by the Secretary of State.

b Regulated Awards

These awards comprise Funeral Expenses Payments, Sure Start Maternity Grants, Cold Weather Payments and Winter Fuel Payments. Payments are made if a customer satisfies the criteria set out in the Regulations.

Since the 2003-04 Account, I have qualified my audit opinion on the Social Fund White Paper Account due to the material levels of error in the payment of Discretionary Awards. Since 2009-10, I have also limited the scope of my audit opinion in relation to the Social Fund debt balance disclosed due to the Department not being able to provide adequate assurance over the completeness, existence and valuation of the debt balance.

2012-13 Audit Opinion

Regularity Errors – Each year since 2010-11, I have found a clear and sustained reduction in the level of error in Social Fund payments. With a further reduction in errors in 2012-13, I have concluded that the level of error is now no longer material to the Account and that the Department has made Social Fund payments materially in accordance with Parliament's intentions. As a result, I have decided not to qualify my opinion on regularity for the 2012-13 Social Fund White Paper Account.

Debt Qualification – During 2012-13 the Department has made significant progress in resolving the long-standing issues relating to the debt balances referred to in my previous reports on the Social Fund White Paper Account. However, the Department still faces a number of challenges in relation to these balances and has not yet been able to provide me with adequate assurance over their completeness and existence. As a result I have again limited the scope of my audit opinion on the completeness and existence of the debt notes disclosed in the account. Please see the 'Debt Qualification' section later in this report.

2012-13 Regularity errors

In 2012-13, the Social Fund made payments of some £3,067 million (2011-12: £3,098 million) to customers. As part of the audit of the 2012-13 Account, the NAO performed testing across each of the seven Social Fund award types. The results of this testing determine our estimate of the accuracy of the payments made and whether they have been paid in accordance with Parliament's intentions.

For 2012-13, our regularity testing identified an estimated £20.90 million of payments which were not made in accordance with Parliament's intentions. This represents 0.68 per cent of total payments made (2011-12: £45.63 million, 1.47 per cent). While we estimate that the most likely error is £20.90 million, actual overpayments could lie in the range from £6.42 million to £35.35 million.

Error Categorisation

In previous years, I have analysed the most likely error into four main categories.

- Missing case papers (whole case documentation has not been provided to the NAO);
- Missing or incomplete loan agreements and other key documents (key parts of the case documentation have not been supplied to the NAO);
- Suspected non-compliance with Secretary of State Directions or Regulations due to inadequate documentation (the level of documentation provided is insufficient to demonstrate compliance with the Directions or Regulations); and
- Non-compliance with Secretary of State Directions or Regulations (the Departmental decision maker has not complied with the Directions when processing the award).

This analysis provides a clearer picture of the levels of error by award type within the Fund and in previous years has highlighted areas where the Department might best focus its efforts to reduce the level of regularity errors. The 2012-13 error levels by category are set out in Figure 1.

Most likely error evaluation by award type and error category	Missing case papers (£m)	Missing or incomplete loan agreements (and other key documents) (£m)	Non-compliance with Secretary of State Directions (£m)	Suspected non-compliance due to inadequate documentation (£m)	Overall most likely error (£m)	MLE as a percentage of expenditure (%)	Total expenditure (£m)
Budgeting Loans	6.95	–	3.92	–	10.87	2.38	456.83
Crisis Loans	3.67	–	2.38	–	6.05	5.63	107.40
Community Care Grants	–	0.77	0.88	0.09	1.74	1.30	133.44
Sure Start Maternity Grants	–	–	0.77	–	0.77	1.97	39.04
Funeral Expenses Payments	–	0.40	1.07	–	1.47	3.31	44.38
Cold Weather Payments	–	–	–	–	–	–	141.74
Winter Fuel Payments	–	–	–	–	–	–	2,144.09
Overall most likely error	10.62	1.17	9.02	0.09	20.90	0.68	3,066.92

Figure 1: Extrapolation of 2012-13 error results

Trend analysis

The reduction in the level of Social Fund error in 2012-13 follows the trend of recent years, with the overall most likely error falling from £114.32 million (2.73 per cent) in 2010-11, when the level of error was at its highest, to £20.90 million in 2012-13 (0.68 per cent). Figure 2 illustrates this.

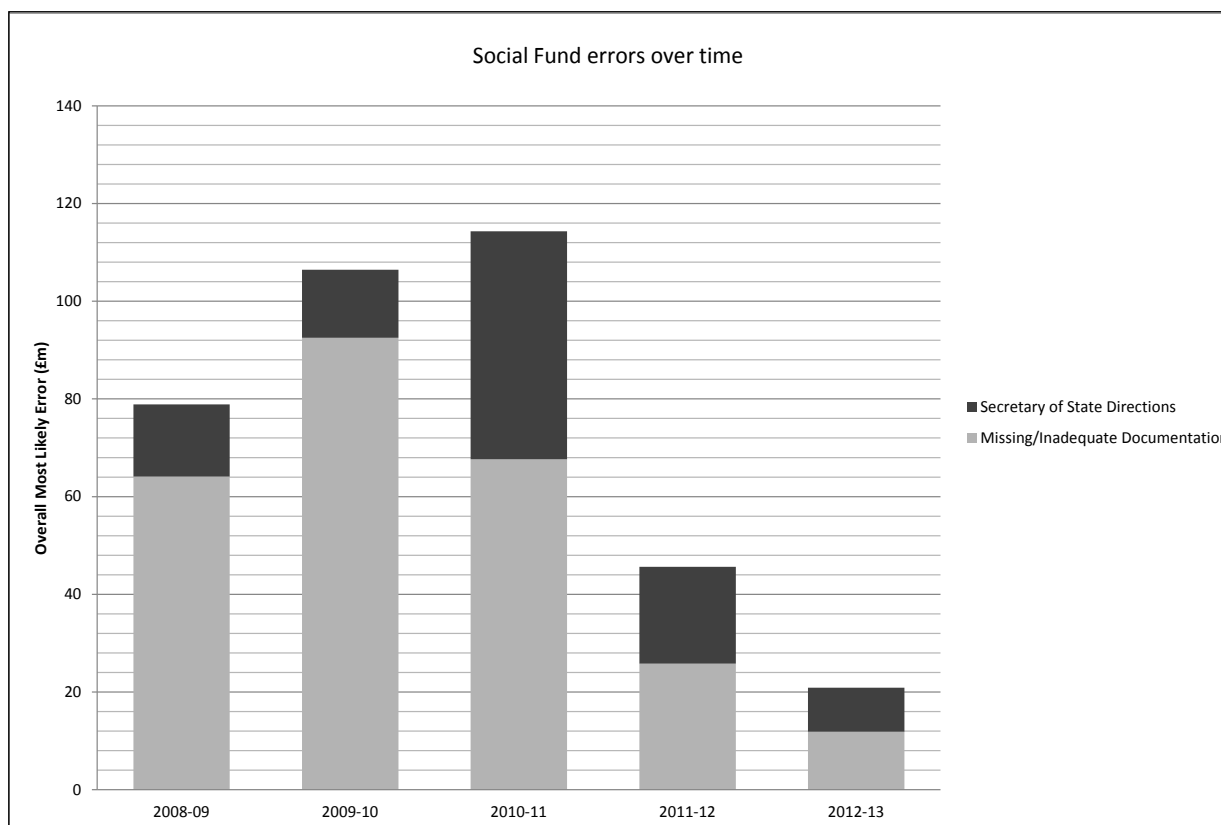


Figure 2: Trend analysis 2008-09 to 2012-13

Reasons for the Reduction in Regularity Errors

I believe that the reduction in the level of estimated error within the Social Fund since 2010-11 is the result of the Department having taken the necessary and appropriate action to identify where errors arise, address the weaknesses in controls that lead to error and improve the related administration processes. The key actions that have resulted in a sustained reduction in error are set out below.

Scanning Project

In 2009-10 the Department started a project to scan all Social Fund case papers and key supporting documentation on to an electronic document retention system. The aim was to remove the need to hold hard copy files and reduce the risk of losing documents. In the years since then, the Department has rolled out the project to cover all Social Fund operations and has continued to develop and refine the scanning process, as well as putting in place tighter controls around the storage and retrieval of case papers and other key paper documentation. These improvements have together resulted in a considerable reduction in missing case papers and missing or incomplete loan agreements.

Quality Assurance Framework

The Department introduced a Quality Assurance Framework (QAF) in 2008-09 for the Social Fund, which it subsequently rolled out to all Benefit Delivery Centres. The purpose of the QAF is to identify which parts of the process for deciding on Social Fund payment applications lead to most error or are the most complex. This allowed the Department to focus training and internal checking on the more complex and high risk payments, to ensure that the payments are made in accordance with the Directions and the documentation is sufficient to support the award. This has driven improvements in the accuracy of decisions.

Adequacy of Documentation

The Department has provided further guidance and training to its decision makers on the level of documentation and information required to support awards made. Historically, errors have arisen due to decision makers failing to properly document the reasons for their decisions. The Department has improved its documentation of its decisions and enhanced the quality of the information provided to support them. The Department has also refined the forms used to capture claim information and record decisions to better evidence why decisions are made. As a result we have identified fewer cases of suspected non-compliance due to inadequate documentation.

The Department has also made improvements to other Social Fund processes that have previously caused error, such as the operation of the Bereavement Service, which administers Funeral Expenses Payments. When the Bereavement Service was first set up (pilot programme in 2010-11, with a national roll-out in 2011-12), the Department had problems retrieving call recordings to support claims made. It has since improved its processes, so that it can more easily retrieve call recordings and other supporting information.

Centralisation of Sure Start Maternity Grants

The Department centralised the administration of Sure Start Maternity Grants in 2011-12. Now, one dedicated national team is responsible for the payment of all such grants. This team has been given specific training and follows a uniform decision making process. This has reduced the level of error arising in Sure Start Maternity Grants compared to when decisions were made by a number of separate local teams.

Regularity conclusion

For 2012-13, I estimate that £20.90 million (0.68 per cent) of total Social Fund payments have not been made in accordance with Parliament's intentions or do not conform to the authorities that govern them. I do not consider this to be a material level of irregular payments. I also consider that this relatively low level of error in 2012-13 reflects a continuing and consistent reduction in the level of error since 2010-11, which is the result of clear Departmental action taken to address the problems that caused error. As a result I have decided not to qualify my opinion on regularity for the 2012-13 Social Fund White Paper Account.

The improvements made by the Department in relation to the error rate for Social Fund payments are commendable, and are due, at least in part, to senior level leadership in the Department making decisions to prioritise resources in dealing with the key issues that cause error. The Department has maintained the improvements in the quality of its decision making and administrative processes against a backdrop of significant change in the welfare system. These changes will become more significant in 2013-14, as the Welfare Reform Act 2012 has introduced significant changes to the nature and operation of the Social Fund. The Act abolished Community Care Grants and Crisis Loans for general living expenses (including rent in advance) from 1 April 2013, and replaced it with new local provision to be administered by local authorities in England and the devolved administrations in Scotland and Wales. The challenge for the Department will be to ensure that these changes do not prevent continued improvements in the level of error for those elements of the Social Fund that remain the Department's responsibility.

Debt qualification

In prior years, I have reported on the Department's difficulties in reconciling the debt balance recorded on the accounting system to supporting customer records. While the Department has made good progress in addressing these issues in 2012-13, it is still unable to provide adequate assurance that the debt balance disclosed in the 2012-13 Account is complete or that all debts recorded actually exist and are appropriately valued.

Debt reconciliation

As at 31 March 2013, there is a gross difference of £23.16 million (31 March 2012: £36.28 million) between the accounting system and the supporting debt administration systems. There are, however, opposing movements in the underlying loan types (Budgeting Loans, Crisis Loans and Funeral Expenses Payments), which means that in net terms, the difference is reduced to £1.55 million (31 March 2012: £17.08 million).

The Department remains unable to fully explain the reasons for either the gross or net difference, but during the year it has made good progress in reconciling the accounting system to the underlying customer debt records. This work has enabled the Department to identify five scenarios which it believes account for the majority of the discrepancies between the systems:

- Inappropriate cheque expiries

The Department has identified that a number of cheques issued were inappropriately classified in the accounting system as having expired. Investigation identified that the majority of these cheques were in fact cashed, which meant that the associated debt should be recorded in the Account.

- Duplicate abandonments

Once a Funeral Expenses Payment has been made, the Department considers whether the debt is recoverable from the estate of the deceased. If the debt is not recoverable, the Department abandons recovery and writes off the debt in both the accounting system and the underlying debt administration systems. The Department has identified a problem with the interface between these systems when the debt is abandoned that has led to an overstatement of Funeral Expenses abandonments in the accounting system.

- Duplicate debt records

Due to on-going system limitations, the loan details for some customers with multiple loans have to be recorded on two separate computer systems. On occasion, when records are transferred from one system to another, transactions can be duplicated between systems, overstating the debt.

- Debt recorded with credit balances

A small number of individual debts are recorded as credit rather than debit balances, due to a mix of genuine over-recovery and IT system issues.

- Returned payments

The Department has identified an underlying IT system limitation where unencashed payments can be returned to the Department and the details of the subsequent re-issue of the payment are not correctly recorded.

During 2012-13, the Department completed work on two of these issues; inappropriate cheque expiries and duplicate abandonments. The Department found that errors arising from these two sources required net adjustments totalling £20.73 million to be made in the accounting system to more accurately reflect the true debt balance. However, in making these adjustments, it also adjusted for an unknown amount of genuine cheque expiries. Due to system limitations, the Department is unable to fully assess the level by which it has overstated the debt balances, but has produced a high level estimate of £6.00 million.

The Department is continuing to investigate the remaining three scenarios, and has set aside appropriate operational resources for 2013-14 to work on these issues.

During 2012-13, the Department also completed an exercise to improve the underlying debt records for Funeral Expenses Payments. As a result of this, the Department has aligned the accounting system to underlying customer records for Funeral Expenses Payments debt. In order to do so, it has written-off £7.06 million of recorded debt in the 2012-13 Account. However, the Department is not yet able to demonstrate that the adjusted debt amount is a stable, historic balance, and therefore plans to fully reconcile all payments, recoveries and abandonments at a National Insurance Number level for Funeral Expenses Payments in 2013-14. This work should identify and resolve any outstanding, non-historic issues for this debt balance.

I welcome the efforts made by the Department to resolve these long-standing discrepancies between the accounting system and the underlying customer records. The Department has made considerable progress in 2012-13, which has resulted in a reduction in the level of the gross and net differences between the two sets of records. However, more work remains to be done and the level of the unexplained differences continues to cast doubt over the completeness, existence and valuation of the debt figure in the Account. As a result I have again limited the scope of my audit opinion over the Social Fund debt balances.

Omitted Debt

Three Social Fund award types (Cold Weather Payments, Sure Start Maternity Grants and Community Care Grants) are made on the basis of the applicant being in receipt of a qualifying primary benefit, for example Income Support. If the applicant is subsequently found not to have been entitled to the primary benefit, then they are similarly not entitled to the Social Fund award. Such overpayments are known as 'passport errors', and are recoverable in line with the relevant legislation. As Social Fund awards can be made on the basis of benefits administered by the Department (such as Jobseekers Allowance or Income Support), but also those administered by HMRC (such as Child Tax Credits), the Department's work to address this issue has been split accordingly.

In prior years I have reported my concerns that the Department does not have a robust process in place to identify and recover overpayments made by the Social Fund, which could lead to a material omission from the Social Fund debt balance. During the year the Department has again taken steps to ensure staff awareness of the appropriate actions to be taken when overpayments, notably through passported error, arise. It remains the case, however, that the Department does not have controls in place to ensure that, in all instances, it identifies overpayments and appropriately refers these for recording as debt.

During the year, the Department developed a new report from its electronic systems, which has enabled it to produce a statistically robust estimate of the debt omitted from the Account as a result of passported error arising from DWP benefits. As a result, the Department now estimates that the most likely value of debt omitted from the Social Fund White Paper Account that arose between 1 April 2010 and 31 March 2013 is £9.54 million. The estimate is subject to a degree of statistical uncertainty, which suggests that the actual level of omitted debt could lie in the range from £4.23 million to £12.86 million. The estimate of omitted debt covers the period from 1 April 2010, as the Department received HM Treasury dispensation in 2009-10 to allow it to not actively identify and recover overpayments made prior to this date.

During the year, the Department also completed work to assess the level of debt omitted from the Account as a result of passported error arising from HMRC administered benefits. The methodology used only provides a high level estimate, which is not as robust as the estimate for the amount of omitted debt arising from passported error relating to DWP benefits as noted above. Using this high level method, the Department has estimated that the level of debt omitted as a result of passported error arising from HMRC administered benefits is between nil and £1.03 million. I have used the upper estimate of £1.03 million in my calculation of the most likely level of overall omitted debt, as I believe it is unlikely that the level of omitted debt is nil.

Additionally, the Department has produced an estimate of the level of debt arising from Winter Fuel overpayments that have been omitted from the debt balance in the Account. The Department estimates that the level of Winter Fuel overpayment omitted debt is £1.39 million. Again this is a high level estimate which is not statistically robust.

Overall, the Department estimates that the most likely level of debt omitted from the Social Fund White Paper Account as a result of passported benefit overpayments is £11.96 million (with a range of £5.62 million to £15.28 million). The Department's work in year has allowed it to develop a more robust estimate than was previously possible (2011-12: £4.34 million to £22.39 million).

Despite the progress made by the Department in providing a more robust estimate of the level of debt omitted from the Social Fund Account as a result of passported error arising from DWP benefits, I consider that the continued inability of the Department to identify and refer all overpayments casts doubt over the completeness of the Social Fund debt balance. In considering this issue, alongside the other debt issues documented above, I have again limited the scope of my audit opinion over the Social Fund debt balances.

Debt Conclusion

Preparing Social Fund debt balances continues to present a significant challenge to the Department. The unexplained differences and the uncertainty over the completeness, existence and valuation of these balances has led me to again limit the scope of my audit opinion over the Social Fund debt balances.

During 2012-13 the Department worked towards resolving these debt issues, producing a robust statistical estimate of the level of DWP administered passported error, as well as making significant progress in resolving some of the issues causing a difference between the debt recorded in the accounting system and that recorded in the underlying customer records. The Department plans to continue to work towards resolving the remaining differences during 2013-14.

Summary and Conclusions

My audit of the 2012-13 Social Fund White Paper Account has shown that the Department has made substantial improvements in many of the areas over which I have previously expressed concerns. This is especially true in the regularity of payments, where I consider the most likely total regularity error for 2012-13 is no longer at a level I consider material to the Account. As such I have not qualified my opinion on regularity for the 2012-13 Account. The challenge now for the Department is to maintain and, if possible, further improve the reduction of the error rate. The Department will need to take care that the changes to the Social Fund from 2013-14 do not disrupt this.

The Department has also made good progress in the last year in understanding and resolving the issues that have led to its debt accounting records not reconciling to the underlying customer debt records. However, there is more work to do to fully reconcile the differences and to ensure that the two sets of records continue to be properly aligned in the future.

I will continue to monitor progress on the debt issues and will provide an update in my Report on the 2013-14 Social Fund White Paper Account.

Amyas C E Morse
Comptroller and Auditor General

25 June 2013

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

Receipts and Payments Account for the year ended 31 March 2013

	2012-13 £000	Restated 2011-12 £000
Receipts		
Receipts from the Secretary of State		
Discretionary	136,000	
Regulated	236,000	
Winter Fuel Payments (Regulated)	<u>2,145,753</u>	
	2,517,753	2,514,838
Repayments of Budgeting Loans	461,499	452,981
Repayments of Crisis Loans	139,296	148,995
Repayments of Funeral Expenses Payments	433	438
Refund of Social Fund Overpayments Discretionary	201	64
Refund of Social Fund Overpayments Regulated	574	1,205
	<u>3,119,756</u>	<u>3,118,521</u>
<i>Less</i>		
Payments		
<i>Discretionary</i>		
Budgeting Loans	456,826	453,205
Crisis Loans	107,400	138,826
Community Care Grants	133,448	141,655
<i>Regulated</i>		
Winter Fuel Payments	2,144,090	2,142,418
Funeral Expenses Payments	44,379	47,246
Sure Start Maternity Grants	39,038	46,033
Cold Weather Payments	141,737	128,388
	<u>3,066,918</u>	<u>3,097,771</u>
Excess of receipts over payments	<u>52,838</u>	<u>20,750</u>

Statement of Balances

	2012-13 £000	Restated 2011-12 £000
Opening Balance	90,351	69,601
Excess of receipts over payments	52,838	20,750
Closing Balance	<u>143,189</u>	<u>90,351</u>

The notes on pages 23 to 28 form part of this account.

Robert Devereux
Accounting Officer

24 June 2013

Notes to the Account

1 Accounting Policies

The Account has been prepared in accordance with section 167(4) of the Social Security Administration Act 1992. It has been prepared on a cash basis with no provision for accruals and in a form directed by the HM Treasury shown as an annex to this Account. The figures for 2011-12 are given for comparison. They are taken from the Account for that year, (House of Commons Paper No.HC 454 of 2011-12), and re-stated for a number of items as set out in Note 13.

2 Financial Basis of the Social Fund

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

3 Bank Balance

The Social Fund closing bank balance will vary from year to year. The policy intention is to maintain a minimum balance which will provide working capital to contribute to, for example, an unexpected surge in Cold Weather Payments late in the financial year beyond the date for the Spring Supplementary Estimate. The value of this minimum balance was set at £25 million with the approval of HM Treasury.

The balance in the main bank account is £155.8 million as at 31 March 2013. This is primarily due to ensuring that sufficient funds were in place to meet potentially substantial Cold Weather Payments in March 2013. The triggers did not materialise to the extent forecast at the time resulting in this increased cash balance.

4 Cold Weather Payments

For 2012-13 the winter was marginally more severe than 2011-12, resulting in over 5.9 million payments being made at a cost of £142 million.

5 Statement of Loans

	Budgeting Loans £000	Crisis Loans £000	Total £000
Amount outstanding at 1 April 2012 -restated	687,726	541,682	1,229,408
Amount loaned	456,826	107,400	564,226
Transferred to overpayments	(223)	(183)	(406)
Amount recovered	(461,499)	(139,296)	(600,795)
Adjustments and amounts written off	(2,310)	(1,817)	(4,127)
Amount outstanding at 31 March 2013	<u>680,520</u>	<u>507,786</u>	<u>1,188,306</u>

The amount for loans outstanding at 31 March 2013 shown in this note is based on cumulative advances and repayments disclosed in the receipts and payments account less accounting adjustments and amounts written off.

For the second year running recoveries exceeded payments which has contributed to the reducing debt stock.

There is an estimated £0.9 million of debt included in the table above which is held within Debt Relief Orders that have previously matured. No recoveries are being taken from these debts, but the amounts have not been written off due to system constraints.

Further details of the restatement for the Amount outstanding at 1 April 2012 are reported within Note 13.

6 Age of Loans Analysis

Between April 1988, when the Social Fund loans scheme was introduced, and March 2013, loans of some £11,066 million have been paid. Over this period, £9,828 million of these loans have been recovered and £48 million written off, leaving a balance of £1,188 million outstanding at 31 March 2013. Loans are normally recovered by deduction from Social Security benefits and, where this is not possible, by cash instalments. Where a customer has more than one loan, the earliest loan is normally recovered first, with recovery of later loans following automatically. A number of loans may take several years to recover fully and recovery procedures and arrangements are under review.

An analysis of age of loans outstanding is summarised below:

Age of loan	Budgeting Loans £000	Crisis Loans £000	Total £000
Five years and over	130,858	87,982	218,840
Between one year and five years	264,124	331,613	595,737
Less than one year	285,538	88,191	373,729
	<u>680,520</u>	<u>507,786</u>	<u>1,188,306</u>

7 Statement of Funeral Expenses Payments Outstanding

	£000
Amount outstanding at 1 April 2012 – restated	20,167
Payments made	44,379
Transferred to overpayments	(33)
Amount recovered	(433)
Adjustments and amounts deemed irrecoverable	(49,229)
Amount outstanding at 31 March 2013	<u>14,851</u>

The treatment of Funeral Expenses Payments debt is to continue with recovery procedures for applications where there is an estate, or a likelihood of one, but that, for applications where no estate or other asset is declared, abandonment action is to be taken immediately.

Further details of the restatement for the Amount outstanding at 1 April 2012 are reported within Note 13.

8 Age Analysis of Funeral Expenses Payments Outstanding

An analysis of the age of Funeral Expenses Payments outstanding is summarised below:

Age of Funeral Expenses Payments	£000
Five years and over	33
Between one year and five years	9,088
Less than one year	5,730
	<u>14,851</u>

9 Statement of Overpayments

	Regulated £000	Discretionary £000	Total £000
Amount outstanding at 1 April 2012	656	272	928
New overpayments made	1,135	721	1,856
Amount recovered	(574)	(201)	(775)
Adjustments and amounts written off	(449)	(120)	(569)
Amount outstanding at 31 March 2013	<u>768</u>	<u>672</u>	<u>1,440</u>

The amount for overpayments outstanding at 31 March 2013 shown in this note is based on the cumulative overpayments which have been identified less the repayments disclosed in the receipts and payments account less accounting adjustments and amounts written off.

Winter Fuel Payments represent the largest of these overpayments at £0.66 million (46 per cent) with Community Care Grants being the next largest at £0.27 million (19 per cent) the remaining £0.51 million is spread across the other award types with Budgeting Loans being the next largest at £0.23 million (16 per cent).

In line with Departmental policy and procedures for the referral of benefit overpayment, Social Fund overpayments are referred to the Department's Debt Management service for recovery. They are also incorporated within the debt of the Department for Work and Pensions Annual Report and Accounts.

In the 2011-12 Social Fund White Paper Account, examination of a small sample of Winter Fuel overpayments indicated there may be omitted debt arising of up to a total of £4.5 million for 2010-11 and 2011-12. This preliminary estimate has been revisited and, based on a larger sample, the value of omitted debt relating to Winter Fuel overpayments is now estimated at £1.4 million for the years 2010-11 to 2012-13.

10 Passported Debt

Specific Social Fund Awards, namely Sure Start Maternity Grants, Community Care Grants and Cold Weather Payments, are, under normal circumstances, non-recoverable. When, however, an individual's qualifying benefit, (for example Income Support), is withdrawn, then any grant that this benefit 'passported' entitlement to should be treated as an overpayment.

In addition Sure Start Maternity Grants can also be awarded if the claimant is in receipt of particular Tax Credits, (described in paragraph 2.4 of the Foreword), administered by HM Revenue & Customs.

These awards, therefore, could result in Passported Debt.

The Department has now formulated a mechanism for establishing an estimate of the omitted debt that arises in these circumstances. The central estimate covering the Department for Work and Pensions administered awards, for the three years 2010-11 to 2012-13 is £9.5 million, (with a lower and upper level of £4.2 million and £12.9 million).

The previous methodology for estimating omitted debt arising from changes in retrospective Tax Credit adjustments, as administered by HM Revenue & Customs, provided a figure of £1 million for the three years 2010-11 to 2012-13. During 2012-13 a sample of over 200 cases was reviewed by HM Revenue & Customs and this identified no instances of omitted debt. As such the level of omitted debt in these circumstances is estimated as being within the range of zero to £1 million.

11 Statement of Losses

	£000
Recoverable loans impracticable to pursue (32,605 cases)	4,127
Claims for recoverable Funeral Expenses Payments abandoned due to insufficient estate (17,169 cases)	22,490
Claims for recoverable Funeral Expenses Payments abandoned because they are impossible/unreasonable to pursue (17,741 cases)	19,674
Funeral Expenses Payments alignment adjustment	7,065
Losses due to irrecoverable overpayments recorded during the year (9,072 cases)	569
	<u>53,925</u>

The Department has received HM Treasury approval to include a bookkeeping loss of £7.1 million to reduce Funeral Expenses Payments debt within this account. This adjustment aligns the value of customer debt to that held on the Social Fund Computer System.

12 Statement of Assets and Liabilities

	Liabilities £000	Assets £000
Government Banking Service		155,773
Social Security Benefits and other Payments Vote	13,007	
Santander commercial bank	790	
Administration and Miscellaneous Services Vote		51
National Insurance Fund		1,157
Other Government Creditors / Debtors (Net)		5
Balance of Social Fund	<u>143,189</u>	
	<u>156,986</u>	<u>156,986</u>

The Balance of Social Fund represents the cumulative excess of receipts over payments since the inception of the Fund. This is held as current assets or liabilities in the above bank, debtors and creditors accounts.

The main bank account for the Social Fund is the Government Banking Service, the Social Security Benefits and other Payments Vote is money owed from other Benefits and the Santander commercial bank account holds the funds to cover cheque payments.

13 Prior Year Adjustment

The account has a number of restated items dating back to 2006-07. These items have arisen as a result of the investigations into the debt reconciliation between the Department's core accounting system, the Central Payments Systems, (CPS), and the customer record system, the Social Fund Computer System, (SFCS). The debt reconciliation issue has been referenced in C&AG audit reports in prior years.

There are three items that have been restated;

- a Accounting treatment of expired cheques – a total of £20 million over the years 2006-07 to 2011-12. A fault was identified whereby some accounting entries for cheques for Crisis Loans, Budgeting Loans and Funeral Expenses Payments were being reversed incorrectly as if they had expired. The cheques had subsequently been encashed. The restatement corrects this position, reinstating the original debt.
- b Funeral Expenses Payments Abandonments – a sum of £0.727 million relating to Funeral Expenses Payments Abandonments was duplicated in 2009-10. The restatement in Table 3 below reverses this error and the accounting controls have been revised.

- c Mapping of Recoveries – a sum of £0.391 million relates to a small number of recoveries which were accounted for incorrectly between Budgeting Loans, Crisis Loans and Funeral Expenses Payments. The restatement corrects this position and the fault has been rectified.

i Reconciliation of receipts and payments for the year ended 31 March 2012

	Published Accounts 2011-12 £000	Accounting treatment of Expired Cheques (Note 13a) £000	Duplicate Funeral Expenses Payments Abandonments (Note 13b) £000	Mapping of Recoveries (Note 13c) £000	Restated 2011-12 £000
Receipts					
<i>Receipts from Secretary of State:</i>					
Discretionary	142,000	–	–	–	142,000
Regulated	207,000	–	–	–	207,000
Winter Fuel Payments (Regulated)	2,165,838	–	–	–	2,165,838
Repayments of Budgeting Loans	452,942	–	–	39	452,981
Repayments of Crisis Loans	148,994	–	–	1	148,995
Repayments of Funeral Expenses Payments	478	–	–	(40)	438
Refund of Social Fund Overpayments Discretionary	64	–	–	–	64
Refund of Social Fund Overpayments Regulated	1,205	–	–	–	1,205
	<u>3,118,521</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,118,521</u>
Payments					
Budgeting Loans	453,171	34	–	–	453,205
Community Care Grants	141,817	(162)	–	–	141,655
Crisis Loans	133,630	5,196	–	–	138,826
Winter Fuel Payments	2,147,347	(4,929)	–	–	2,142,418
Funeral Expenses Payments	47,036	210	–	–	47,246
Sure Start Maternity Grants	46,040	(7)	–	–	46,033
Cold Weather Payments	128,730	(342)	–	–	128,388
	<u>3,097,771</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,097,771</u>
Excess of Receipts over Payments	<u>20,750</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>20,750</u>
Statement of Balances					
Opening Balance	69,601	–	–	–	69,601
Excess of Receipts over Payments	20,750	–	–	–	20,750
Closing Balance	<u>90,351</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>90,351</u>

ii Reconciliation of receipts and payments for the year ended 31 March 2012

	Published Accounts at 31 March 2012	Accounting treatment of Expired Cheques (Note 13a)	Duplicate Funeral Expenses Payments Abandonments (Note 13b)	Mapping of Recoveries (Note 13c)	Restated 31 March 2012
	£000	£000	£000	£000	£000
Amount outstanding at 31 March 2012					
Budgeting Loans	687,353	764	–	(391)	687,726
Crisis Loans	523,492	18,006	–	184	541,682
Loans Total at 31 March 2012	1,210,845	18,770	–	(207)	1,229,408
Funeral Expenses Payments	17,997	1,236	727	207	20,167
Total Debt at 31 March 2012	1,228,842	20,006	727	–	1,249,575

Robert Devereux
Accounting Officer

24 June 2013

Annex

Accounts Direction given by HM Treasury

Accounts Direction given by HM Treasury in accordance with section 167(4) of the Social Security Act 1992

- 1 The Treasury in accordance with section 167(4) of the Social Security Administration Act 1992 hereby gives the following direction.
- 2 The statement of account, which it is the duty of the Department for Work and Pensions to prepare in respect of the transactions of the Social Fund for the financial year ended 31 March 2013, shall comprise;
 - i a foreword;
 - ii an account of receipts and payments;
 - iii a statement of balances;and shall include any such notes as may be necessary for the purposes referred to in the attached schedule.
- 3 The Accounting Officer shall observe relevant accounting and disclosure.
Requirements in the Government Financial Reporting Manual (FRM), in so far as it applies to a receipts and payments account, and any other guidance issued by HM Treasury, as amended or augmented from time to time.
- 4 The format of the statement of account and the disclosure requirements are in the attached schedule.
- 5 The Accounting Officer shall sign the foreword and account.
- 6 The Accounts Direction shall be produced as an annex to the accounts.

Karen Sanderson
Deputy Director, Government Financial Reporting
HM Treasury

15 February 2013

Schedule – Format of Account and Disclosure Requirements

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

Annex

Receipts and Payments Account for the year ended 31 March XXXX

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

Statement of Balances

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

Notes to the Account

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