

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

Social Fund Account 2007-2008

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Social Fund Account 2007-2008

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 21 JULY 2008

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scrutinises public spending
on behalf of Parliament.

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He and the National Audit Office
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Foreword

Background information

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

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

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

Categories of payments

Budgeting Loans

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

Crisis Loans

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

Community Care Grants

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

Sure Start Maternity Grants

The Sure Start Maternity Grant is available to families receiving Income Support, Job Seekers Allowance (Income Based), Working Tax Credit where a disability or a severe disability element is included in the award, Pension Credit, and Child Tax Credit at a rate higher than the family element for each child expected, born or the subject of a parental order on or after 11 June 2000. Initially worth £200, the Grant is worth £500 in respect of babies due, born, adopted or subject of a parental order on or after 16 June 2002.

Funeral Expenses Payments

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

Cold Weather Payments

Payable to customers receiving Pension Credit, Income Support, or income based Jobseekers Allowance who also have a disability, or a pensioner premium, or who have a disabled child or a child less than 5 years of age. Customers receive payments of £8.50 for each period of seven consecutive days during which the average temperature was or was forecast to be 0 degrees Celsius or below in areas where customers live.

Winter Fuel Payments

The Winter Fuel Payments scheme was introduced by the Secretary of State by Regulations made in exercise of powers conferred by section 138(2) of the Social Security Contributions and Benefits Act 1992. These regulations, which came into force on 16 January 1998, allow for payments to pensioner households, where a qualifying benefit was payable to one or more persons in that household for at least one day in the qualifying week. The qualifying week is usually in September. (In 2007-08 the qualifying period was week commencing 17 September).

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

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

Financial performance

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

During 2007-2008 £631 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 £542 million, against original forecast recoveries of £526 million.

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

The standing balance on the account has increased by £14 million. Any in-year over funding of the discretionary payments is adjusted for in the following year.

Secretary of State's report

The Secretary of State is required by section 167(5) and (6) of the Social Security Administration Act 1992 to prepare an annual report on the Social Fund and to lay a copy of the report before each House of Parliament. The latest annual report (Command 7161) was presented to Parliament in July 2007 and gives a detailed account of the activities and provisional expenditure on the Social Fund for 2007-2008.

Basis of preparation of Accounts

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

Audit arrangements

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

Statement of Accounting Officer's responsibilities

The Treasury has appointed me, the Chief Executive of Jobcentre Plus, as the Accounting Officer for the Social Fund. The relevant responsibilities of the Accounting Officer, including my responsibility for the propriety and regularity of the public finances for which I am answerable and for the keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Managing Public Money.

Lesley Strathie
Accounting Officer

8 July 2008

Statement on the System of Internal Control (Social Fund)

1 April 2007 - 31 March 2008

Scope of responsibility

As Accounting Officer for the Social Fund, I have responsibility for maintaining a sound system of internal control that supports the achievement of the policies, aims and objectives of the Social Fund, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

As Chief Executive of Jobcentre Plus I am also responsible for the administration of Social Fund payments which are delivered within a framework of policies developed by Ministers, and the Work Welfare and Equality Client Group (WWEG). The Social Fund is mostly administered by Jobcentre Plus, an Executive Agency of the Department for Work and Pensions and, as such, operates under its internal control environment. My Board and Management Team, in managing the totality of its activities, applies this control environment to Social Fund activities as appropriate. The only exception is that The Pension Service administers Winter Fuel Payments, and as such these activities are carried out within its internal control environment. This statement incorporates an assurance provided by The Pension Service, to Jobcentre Plus that they had effective and efficient internal controls in place for the production of the Winter Fuel Payments paid on behalf of Jobcentre Plus.

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

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

The purpose of the system of internal control

The Jobcentre Plus system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Agency's aims, objectives and policies (including Social Fund), to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically. The system of internal control has been in place in Jobcentre Plus for the year ended 31 March 2008 and up to the date of approval of the Annual Report and Accounts and accords with Treasury guidance.

Capacity to handle risk

The Jobcentre Plus Board considered the strategic risks to Social Fund delivery and these were reported in the Strategic Risk Register. The Jobcentre Plus Chief Operating Officer and the Director of Transformation and Product Management have specific Social Fund accountabilities to ensure that systems are in place to effectively manage Social Fund risks, and they are required to provide an assurance as to the effectiveness of their risk management arrangements through the Letter of Assurance (LoA) process.

A revised approach was introduced to risk identification and management during 2007-2008 whereby Board Directors have specific responsibility for identifying their highest risks and longer term threats in the context of the three year Strategic Plan. The risks are managed through a process of independent challenge initially through the Strategic Planning and Finance Matters Board, with further review being undertaken by our Risk Assurance Division (RAD) before being actively managed by the Board.

This approach provides a framework for ensuring that those risks relating to Social Fund activity are managed at the most appropriate level in the organisation.

The risk and control framework

Specific Social Fund risks are included in the Strategic Risk Register, and governance sub-board risk registers. Departmental methodology is used to identify and assess the risks and accountable risk owners are nominated at Board Director level. Risks are rated and prioritised within agreed tolerance levels which demonstrate the Agency's risk appetite.

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

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

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control has been informed by the work of the RAD and the executive managers within Jobcentre Plus and The Pensions Service who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. A plan to address weaknesses and ensure continuous improvement of the system is in place.

The Jobcentre Plus Corporate Governance Board incorporates the functions and responsibilities of an audit committee for the Agency and works with the Department's Risk and Assurance Division to focus on the areas of the business at greatest risk. The Board is chaired by Kenneth Ludlam, a non-executive Director whose appointment commenced on 4 February 2008. The Corporate Governance Board received regular updates on actions to address previously identified weaknesses with the Social Fund system of internal control. This allowed them to assess the effectiveness of mitigation actions and, where appropriate, request further work to be undertaken to strengthen the control environment. For example a Social Fund Assurance Action Plan was commissioned by the Corporate Governance Board to allow better management of control weaknesses identified by National Audit Office, and within the previous Statement of Internal Control. The Independent Review Service carries out independent reviews of decisions made by Social Fund caseworkers and work closely with Jobcentre Plus to improve decision making.

Jobcentre Plus Board Directors with responsibility for specific Social Fund activity are required to comment on the effectiveness of their internal control systems and risk management procedures through the LoA process. From April 2007 procedures have been introduced to allow better challenge or support to these statements through the introduction of a quarterly Assurance Framework Report. This report has identified Social Fund internal control issues which the Corporate Governance Board has taken action on during the year. The report was presented quarterly to the Jobcentre Plus Corporate Governance Board.

In November 2007 I set up the Social Fund Board to oversee the operation of the Social Fund and improve policy and delivery of the Fund, providing early warning of emerging risks in order to strengthen the control environment. The Social Fund Board is chaired by Jeremy Groombridge, the Director of Transformation and Product Management.

Reliable information is a key requirement of an effective internal control system. The new Business Control System (BCS) was fully rolled out in the latter part of 2007-2008 and contains four specific Social Fund mandatory checks designed to improve internal controls over Social Fund payment and decision making. The IT system now provides the management information to allow informed business decisions at all levels and should assist with improved levels of compliance with the checking regime.

Significant control challenges

Risk Assurance Division provides an overall assurance over key risk areas of Jobcentre Plus performance in-year. For 2007-2008 RAD have carried out a review of the significant control challenges which led to the Social Fund account qualification by NAO and have given an assessment of Limited Assurance.

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

- a Document retrieval:** Although the overall position has improved, there are ongoing problems and increases in document storage and retrieval which are hampering our external contractor's ability to deliver to agreed service standards. The Department is working closely with the contractor to address these issues and there has been progress on a number of fronts by the Commercial Directorate with senior business representatives. Initiatives being taken forward include
 - the setting up of a Records Storage Steering Group with senior representation from all the businesses. This forum will review all record storage activity and ensure improved business compliance and more strategic decision making;
 - as the largest user of the contract, Jobcentre Plus has tightened up record storage procedures and guidance to improve compliance with document retention policies including sending material to store inappropriately or incorrectly. A group is also being set up which will look at the record storage processes in detail with a view to designing new process flows and improving compliance with standing instructions.
- b Monetary loss through fraud and error:** Jobcentre Plus does not currently have a process in place to provide an estimate of Monetary Value of Fraud and Error (MVFE) in Social Fund payments, although data is available on Social Fund performance relating to the Decision Making and Appeals (DMA) aspect of benefit case work. To bring Social Fund in line with the other benefits an official error MVE sample is planned to be introduced during 2008-2009, this will replace the DMA only sample and cases will be selected proportionate to benefit expenditure.
- c Documenting decisions made:** The Social Fund Account was qualified in 2006-2007 due to the error rate across three award types: Budgeting Loans, Crisis Loans and Community Care Grants and there is evidence of continuing difficulties throughout 2007-2008. These errors arose primarily through either Social Fund operational staff failing to follow Secretary of State Directions or inadequate documentation to support award. During 2007-2008 Jobcentre Plus, Products and Service Management Division has continued to take forward initiatives to improve the standards of decision making in processing Social Fund claims.

These include

- the piloting of a new Quality Assurance Framework (QAF) for Social Fund decision making, designed with the help of the Independent Review Service. The QAF is designed to ensure a proper quality check is carried out on a sample of Social Fund decisions. That feedback is provided to Social Fund managers in Benefit Delivery Centres so that corrective action can be taken to address recurrent problems. The QAF also ensures that lessons are learned from decisions returned by Social Fund Inspectors;
- the development of new Intranet-based blended learning now available to all Social Fund staff including detailed modules on the principles of decision making;
- a new standard Social Fund application form has been introduced for customers facing staff throughout Jobcentre Plus. The form has been designed to allow for full and effective capture of all relevant information which provides the basis for sound decision making; and
- the Independent Review Service continues to provide workshops on decision making to Social Fund staff.

The increased volume of Social Fund applications in 2007-2008 has resulted in Contact Centres becoming involved in the Social Fund process and pilots to streamline the application and decision making process. Performance is being closely monitored to assess the effectiveness of these initiatives.

Additionally, arrangements are currently being put in place to pilot proposed changes to the Secretary of State Directions in the Discretionary Social Fund, with a view to tackling abuse of Crisis Loans and operational pressures in the business. Jobcentre Plus is also making strong representations to the WWEG for a review of all aspects of Social Fund including policy and processes.

Lesley Strathie
Accounting Officer

8 July 2008

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

I certify that I have audited the Social Fund White Paper Account for the year ended 31 March 2008 under section 167(4) of the Social Security Administration Act 1992. The accounts comprise the Receipts and Payments account, Statement of Balances and notes relating to receipts and payments and the debt position. The accounts have been prepared on a cash basis in accordance with the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the accounts in accordance with section 167(4) of the Social Security Administration Act 1992 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounts properly present the receipts and payments and whether the accounts have been properly prepared in accordance with section 167(4) of the Social Security Administration Act 1992 and HM Treasury directions made thereunder. I also report to you whether, in my opinion, certain information given in the Foreword which comprises Financial Performance is consistent with the accounts. I also report whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited accounts. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the accounts. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the accounts. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the accounts and of whether the accounting policies are most appropriate to the Social Fund's circumstances, consistently applied and adequately disclosed.

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

Opinions

In my opinion

- the accounts properly present, in accordance with the Social Security Administration Act 1992, the receipts and payments for the year ended 31 March 2008 and balances as at that date;
- the accounts have been properly prepared in accordance with HM Treasury directions made under the Social Security Administration Act 1992;
- the information given within the Foreword which comprises Financial Performance is consistent with the accounts.

Qualified Audit Opinion on Regularity due to substantial levels of error in discretionary awards

As described in more detail in my report, there was a substantial level of error in discretionary Social Fund awards made by the Department for Work and Pensions in 2007-2008. I have estimated the level of error at £85.285 million in 2007-2008. As these payments were not in accordance with the Secretary of State's directions, issued under the Social Security Administration Act 1992 and the Social Security Contributions and Benefits Act 1992, I have concluded that they have not been applied to the purposes intended by Parliament and do not conform with the authorities which govern them.

In my opinion, except for the irregular payments of discretionary awards referred to above, in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

My report on these financial statements is on pages 11 to 16.

TJ Burr
Comptroller and Audit General

16 July 2008

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Report by the Comptroller and Auditor General

Introduction

- 1 The Social Fund White Paper Account records payments of £3.011 billion made by the Department for Work and Pensions to customers. Table 1 below details payments for each of these areas in 2007-2008

Payment type	£000	£000	Percentage change
Discretionary Awards	2007-2008	2006-2007	
Budgeting Loans	516,386	591,457	(12.7)
Community Care Grants	139,185	139,900	(0.5)
Crisis Loans	114,724	98,007	+17.0
Regulated Payments			
Funeral Expenses Payments	46,351	46,102	+0.5
Sure Start Maternity Grants	122,671	119,843	+2.4
Cold Weather Payments	4,012	3,451	+16.3
Winter Fuel Payment Scheme			
Winter Fuel Payments	2,067,811	2,016,100	+1.7
Total	3,011,140	3,014,860	(0.1)

- 2 The Account also includes receipts of £3.025 billion including £541.589 million from the repayment of Budgeting and Crisis Loans.

Audit opinion

- 3 I have qualified my opinion on the Social Fund accounts since 2003-2004 because of substantial levels of error in the award of discretionary payments covering Budgeting Loans, Community Care Grants and Crisis Loans. As a result of my audit of the 2007-2008 Account I have found it necessary to again qualify my opinion as a result of material irregularities in payments. In the paragraphs below I have set out the reasons for my qualification.

Background

- 4 In 2007-08 over 3.8 million applications for discretionary Social Fund Awards were processed by Jobcentre Plus along with over 400,000 applications for regulated awards as set out in Table 2.

Award type	2007-2008 ¹		2006-2007 ²	
	Applications	Awards	Applications	Awards
Budgeting Loans	1,556,000	1,168,000	1,750,000	1,298,000
Crisis Loans	2,088,000	1,431,000	1,448,000	1,072,000
Community Care Grants	535,000	237,000	580,000	271,000
Sure Start Maternity Grants	338,000	243,000	330,000	237,000
Funeral Expense Payments	65,000	40,000	67,000	41,000

1 Draft Annual Report for the Secretary of State for Work & Pensions on the Social Fund 2007-2008

2 Annual Report for the Secretary of State for Work & Pensions on the Social Fund 2006-2007, Cm 7161

- 5 Discretionary awards comprise Community Care Grants to help vulnerable groups lead independent lives together; interest-free Budgeting Loans, to help cope with expenditure associated with major items or services; and interest-free Crisis Loans to help relieve serious risks to health and safety of customers and their dependants.
- 6 By their nature discretionary awards require decision makers to exercise discretion as to whether an award is justified and what value of an award is appropriate to the customer's circumstances. The Secretary of State provides guidance to decision makers within Jobcentre Plus which is regularly updated via bulletins and the Department's intranet, and is augmented by advice from the Social Fund Commissioner through his inspectorate, the Independent Review Service. The nature of difficulties faced by customers applying for discretionary awards means that decision makers have to exercise judgement under considerable time pressure if those difficulties are to be alleviated without giving rise to further hardship. Moreover, because of the cash limited nature of these awards, decision makers are often called on to assess whether an award is the customer's only way of dealing with their difficulties and whether or not they may have access to other funds that will not put them further into debt.
- 7 Key to achieving accurate award decisions is the training and supervision of decision makers at local level. At a national level the Department reviews the accuracy of decision making, although no attempt is made to amend decisions considered to be inaccurate and there is no estimate of the financial impact of these inaccurate decisions. In addition Jobcentre Plus has formed a Social Fund Board to provide a governance framework over the financial and operational aspects of Social Fund awards.
- 8 Where customers consider that they have been inappropriately declined an award or where they consider the award to be insufficient to meet their needs, they may request a local appeal. Such an appeal entails the reconsideration of the application by another Decision Maker within the same Benefit Delivery Centre, including discussion with the customer where the customer may provide additional evidence to support their case.
- 9 Customers dissatisfied with the internal review process may appeal further to the Independent Review Service. In his 2006-2007 annual report the Social Fund Commissioner reported that his inspectors delivered 23,243 decisions, changing 50.9% of the decisions they reviewed.

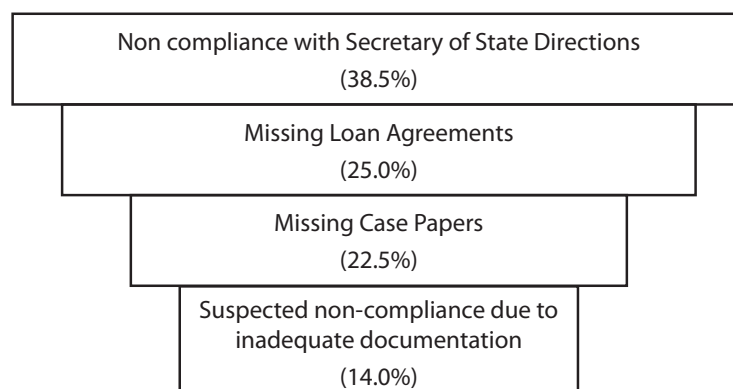
Estimated error in discretionary awards

- 10 In 2007-2008, the National Audit Office reviewed a sample of each of the payments' streams within the Social Fund to provide assurance that payments were accurate and in accordance with the eligibility conditions approved by Parliament. Based on its own independent testing the National Audit Office has concluded that estimated errors in discretionary award payments during 2007-2008 totalled £85.285 million (11.1 per cent of discretionary award payments). It is not possible to determine the exact loss associated with these overpayments since some categories of award are loans and may be recoverable over a number of years. This is the second year I have qualified my opinion as a result of irregularity of discretionary award decisions. It is not possible, based on only two year's results to determine whether the situation is getting better but I have noted in paragraphs 18 to 19 below the significant efforts being made by Jobcentre Plus to reduce the impacts of non-compliance.
- 11 The National Audit Office did not find any specific evidence of misrepresentation by customers as a contributing factor to the erroneous payments, although the non-compliance identified is likely to have increased the Fund's exposure to bogus claims. Overpayments occur principally because of non-compliance by Jobcentre Plus staff with the qualifying conditions for each award type. An additional factor is that in a number of cases the quality of documentation supporting a decision is not sufficiently clear to demonstrate entitlement by the customer. Jobcentre Plus have acknowledged in the Statement of Internal Control on page 5 the deficiencies in documenting award decisions and outlined the steps taken during 2007-2008 to bring these to an acceptable standard.

Types of errors identified by the National Audit Office

- 12 To provide a better context to the incidence of errors the National Audit Office have analysed payment errors arising in 2007-2008 into four main groups detailed in diagram 1 below in order of decreasing significance to the overall error found. The background to each error type is discussed in more detail in paragraphs 14 to 17 below

Diagram 1: Errors by group



- 13 The estimated value of errors associated with these descriptions is detailed in Table 3 below

Most Likely Error evaluation by error type	Secretary of State Directions	Missing Loan Agreements	Missing Cases	Inadequate Documentation	Overall
Discretionary Awards					
Budgeting Loans	23,001,310	17,216,934	12,899,816	0	53,118,060
Crisis Loans	7,690,863	4,040,117	6,278,431	7,747,545	25,756,956
Community Care Grants	2,139,776	0	0	4,270,329	6,410,105
Overall	32,831,949	21,257,051	19,178,247	12,017,87	85,285,12

Non compliance with Secretary of State Directions

- 14 The Discretionary Scheme of the Social Fund is based on a series of 47 Secretary of State Directions, established under s168(5) of the Social Security Administration Act 1992 and s140(2) of the Social Security Contributions and Benefits Act 1992. These Directions set out eligibility requirements and circumstances in which decision makers within Jobcentre Plus may exercise discretion over the amount of any award. Case 1 highlights how Jobcentre Plus Decision Makers may fail to comply with relevant Secretary of State Directions.

Case 1: A Crisis Loan which does not comply with Secretary of State Direction 14

Direction 14 requires the Decision Maker to satisfy themselves that the claimant is aged 16 or over and is without sufficient resources to meet the immediate short term needs of themselves or their families. In this example, the customer applied for £300 and received £278 for food and paying bills following the breakdown of a relationship. They had no benefits in payment in the immediate short term. Part 4 of the application form asks 'About savings and other money you could use' and Part 5 'About money you have to pay out'. Neither was completed by the customer and there was no evidence that the Decision Maker had contacted the customer about these omissions before making the award.

The consequences are that an award is made for what may have been a lower priority claim thereby reducing funds available to others.

Missing loan agreements

- 15 Customers awarded Budgeting or Crisis Loans are required to sign an agreement accepting the loans and agreeing to repay the amount advanced, usually by deductions from their on-going benefit payments. In some cases repayment is deferred because the customer may already be repaying previous loans. The National Audit Office noted several cases in their sample where loan agreements were missing from case files and the loan was not in repayment. This situation is most likely because the loan agreement is returned by the customer after the case papers have been prepared for despatch to remote store storage. Nevertheless the agreement represents the Department's means of enforcing recovery should the customer move off benefit or subsequently challenge deductions from their benefit. Case 2 highlights an example.

Case 2: Budgeting Loan without a valid loan agreement

Direction 5 requires the Decision Maker to confirm that a Budgeting Loan is repayable. The signed loan agreement between the customer and Jobcentre Plus is the key evidence necessary to demonstrate that the customer has agreed to repay the loan. Without a signed loan agreement, Jobcentre Plus remains at risk of the customer repudiating the loan.

In this example, the customer applied for and received £403 for furniture, household equipment, clothing and footwear. The National Audit Office were unable to locate the customer's signed loan agreement. The customer's underlying income support record did not reveal any amounts repaid by deduction from benefit. As such, the National Audit Office could not conclude on whether Direction 5 had been satisfied and whether this loan is recoverable.

The consequences are that recovery of the award cannot be legally enforced should the customer decline to repay it or challenge deductions from benefit.

Missing case papers

- 16 In 2007-2008, Jobcentre Plus processed 4.179 million Social Fund Discretionary award applications and around 68 per cent of these resulted in a payment, but on completion, all Social Fund case papers are sent to remote storage administered by an external contractor. The contract specifies that the contractor must be able to retrieve when required at least 98 per cent of records. Historically the Department for Work and Pensions has encountered problems in retrieving Social Fund case papers to this target rate, but in 2007-2008 the target was achieved although in some cases it takes considerable effort on the part of the Department's staff and many months to locate case papers.

Case 3: Processes that result in missing case papers

Over the last few years Jobcentre Plus has been rolling out a revised structure for processing benefits including Social Fund awards. Processing has been concentrated on 20 delivery centres. In order to maximise office capacity Social Fund case papers are sent to remote storage almost as soon as the loan or grant has been paid and processed on the Social Fund Computer System. Remote storage is centred on one site in Heywood in Lancashire. Case papers are transported securely by contractor and are then booked into stores. The volumes involved, covering all benefit streams as well as Social Fund are so large that the booking in process can take several weeks. Social Fund case papers entered to store are allocated to a storage area by their 9-digit National Insurance number and then by Application Number, since it is not uncommon for some customers to have had 20 or more Social Fund applications.

The consequences are that any inaccuracy in filing by National Insurance Number within the stores can result in significant delays in finding the case papers or, in some instances, the case papers being untraceable.

Suspected non compliance due to inadequate evidence

- 17 In making awards Decision Makers within Jobcentre Plus must exercise their discretion on eligibility, the priority of the case and the value of the award that is reasonable to the customer's circumstances. My audit has continued to raise concerns about the adequacy with which Decision Makers document how their discretion has been exercised and in some of these cases the lack of evidence or conflicts in the available evidence raises doubts as to whether the award complies with the relevant Directions as highlighted in Case 4.

Case 4: Community Care Grant where documentation of discretion is inadequate

Direction 4a) Part iii) requires the Decision Maker to be satisfied that an award will assist an applicant and will ease exceptional pressure on that person and their family. In this example, the customer was a single parent with two dependent children. She applied for £2,930 and received £1,580 to provide household items following the breakdown of a violent relationship. There was no evidence in the case papers to suggest she had recently moved home. The customer did not provide any details of her former partner or details of any support she received from her GP, Social Services, and Community Support Workers or similar. The National Audit Office were also unable to confirm the existence of a partner through their review of underlying heritage benefit system records.

It was unclear to the National Audit Office as to how the Decision Maker satisfied themselves that the customer was a victim of domestic violence and that the family was suffering exceptional pressure as a result. Jobcentre Plus advised that in these circumstances the Decision Maker would not be expected to ask for proof of the fact she has suffered from domestic violence. The customer's signed declaration of this would be accepted as proof. It is up to an individual Decision Maker's discretion as to whether they are satisfied that the claim is genuine and therefore whether Direction 4 is satisfied or not.

Without adequate supporting evidence of circumstances the consequences are that bogus claims could be paid thereby reducing funds available to other genuine claims.

Action being taken by Jobcentre Plus

- 18 During 2007-2008 demand for Crisis Loans rose to unprecedented levels. As shown in Table 2 above, application volumes rose 44 per cent, awards rose 33 per cent and the amount paid rose 17 per cent, although overall spending on discretionary awards fell some 7.1 per cent. A major factor in the increase was undoubtedly the severe flooding experienced in parts of the UK during Summer of 2007. Contributing factors arose from
- improvements in the telephony used by Jobcentre Plus Delivery Centres which has allowed greater volumes of customers to make telephone based claims;
 - Budgeting Loans are based on an available credit score which in turn is based on a multiplier of an individual customer's benefit entitlement – successive Budgeting Loans use up a customer's available credit resulting in their being more likely to apply for Crisis Loans; and
 - increased demand for Crisis Loans has put pressure on other cash limited discretionary awards, particularly Budgeting Loans to the extent that Jobcentre Plus has been forced to decrease the amounts available, which in turn may have encouraged greater numbers of customers in need of help to apply for Crisis Loans.
- 19 The Department has acknowledged that non-compliance remains an issue and in response to observations from the Work and Pensions Select Committee³, the Social Fund Commissioner as well as the National Audit Office has introduced a Quality Assurance Framework at a sample of Benefit Delivery Centres. The elements of this initiative aim to address the four causes of errors that I have identified in my Report. Specific measures include
- enhanced management and supervision over the quality and documentation of decision making and compliance with Secretary of State Directions;

3 Work and Pensions Select Committee 6th Report 2006-2007 HC464.

- temporary local storage to ensure that all paper work relating to an application, including the signed loan agreement, has been returned and collated before the case is sent for remote storage; and
 - better completion of archiving documentation to improve case retrieval rates and retrieval times.
- 20 The National Audit Office will continue to monitor the progress of Jobcentre Plus in implementing these improvements and I will provide an update in my Report on the 2008-2009 Social Fund White Paper Account.

T J Burr
Comptroller and Auditor General

16 July 2008

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

Receipts and Payments Account for the year ended 31 March 2008

	2007-2008	2006-2007
	£000	£000
Receipts		
Receipts from the Secretary of State		
RfR 3 – Discretionary	249,200	
RfR 3 – Regulated	174,442	
RfR 3 – Winter Fuel Payments (Regulated)	2,059,183	
	2,482,825	2,481,235
Repayments of Budgeting Loans	471,813	484,354
Repayments of Crisis Loans	69,776	69,551
Repayments of Funeral Expenses Payments	791	1,017
Refund of Social Fund Overpayments Discretionary	23	31
Refund of Social Fund Overpayments Regulated	210	53
	3,025,438	3,036,241
<i>Less</i>		
Payments		
<i>Discretionary</i>		
Budgeting Loans	516,386	591,457
Community Care Grants	139,185	139,900
Crisis Loans	114,724	98,007
<i>Regulated</i>		
Winter Fuel Payments	2,067,811	2,016,100
Funeral Expenses	46,351	46,102
Sure Start Maternity Grants	122,671	119,843
Cold Weather Payments	4,012	3,451
	3,011,140	3,014,860
Excess of receipts over payments	14,298	21,381

Statement of Balances

	2007-2008	2006-2007
	£000	£000
Opening Balance	71,007	49,626
<i>Plus</i>		
Excess of receipts over payments	14,298	21,381
Closing Balance	85,305	71,007

The notes on pages 18 to 20 form part of this Account.

Lesley Strathie
Accounting Officer

8 July 2008

Notes to the Account

1 Accounting policies

The Account has been prepared in accordance with sections 167(4) of the Social Security Administration Act 1992. It has been prepared on a cash basis with no provision for accruals and in a form directed by the Treasury shown as an annex to this Account. The figures for 2006-2007 are given for comparison and are taken from the Account for that year (House of Commons Paper No HC977 of 2006-2007).

2 Financial basis of the Social Fund

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

3 Statement of loans

	Budgeting Loans £000	Crisis Loans £000	Total £000
Amount outstanding at 1 April 2007	597,642	220,054	817,696
Amount loaned	516,386	114,724	631,110
Amount recovered	(471,813)	(69,776)	(541,589)
Adjustments and amounts written off	(783)	(503)	(1,286)
Amount outstanding at 31 March 2008	<u>641,432</u>	<u>264,499</u>	<u>905,931</u>

The amount for loans outstanding at 31 March 2008 shown in this note is based on cumulative advances and repayments disclosed in the receipts and payments account less accounting adjustments and amounts written off.

4 Bank balance

The Social Fund closing bank balance will vary from year to year. The policy intention is to maintain a minimum balance which will provide working capital to fund, 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.

5 Age of loans analysis

Between April 1988, when the Social Fund loans scheme was introduced, and March 2008, loans of some £7,888 million have been paid. Over this period, £6,944 million of these loans have been recovered and £38 million written off, leaving a balance of £906 million outstanding at 31 March 2008. Loans are normally recovered by deduction from Social Security benefits and, where this is not possible, by cash instalments. Where a customer has more than one loan, the earliest loan is normally recovered first, with recovery of later loans following automatically. A minority of loans may take several years to recover fully. This may be due to the customer losing entitlement to benefit and recovery being deferred until a further claim is made.

An Analysis of age of loans outstanding is summarised below

Age of loan	Budgeting Loans £000	Crisis Loans £000	Total £000
five years and over	65,534	38,980	104,514
Between one year and five years	226,251	119,453	345,704
Less than one year	349,647	106,066	455,713
	<u>641,432</u>	<u>264,499</u>	<u>905,931</u>

6 Statement of Funeral expenses payments outstanding

	£000
Amount outstanding at 1 April 2007	98,409
Payments made	46,351
Amount recovered	(791)
Adjustments and amounts deemed irrecoverable	<u>(33,803)</u>
Amount outstanding at 31 March 2008	<u>110,166</u>

The balance outstanding as at 31 March 2008 does not reflect the amount that may be recovered. Current practice is to treat the award as a loan until the representative of the customer provides assurance that there is no estate or other asset against which the cost of the award can be recovered. Once the absence of an estate can be proved, the debt is abandoned (see note 8 for details). This process can lead to a backlog of cases which have yet to be abandoned and which are still, temporarily, described as debt.

7 Age analysis of Funeral expenses payments outstanding

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

	£000
Age of Funeral payment	
5 years and over	1,377
Between 1 year and 5 years	64,032
Less than 1 year	44,757
	<u>110,166</u>

8 Statement of losses

	£000
Recoverable loans impracticable to pursue (8,537 cases)	1,136
Claims for recoverable Funeral Expenses payments abandoned due to insufficient estate (27,457 cases)	28,864
Claims for recoverable Funeral Expenses abandoned because they are impossible/unreasonable to pursue (4,701 cases)	4,942
Losses due to irrecoverable overpayments (Non-loans) recorded during the year (2,609 cases)	905
	<u>35,847</u>

9 Fraud and Error

Jobcentre Plus does not currently have a process in place to provide an estimate of Monetary Value of Fraud and Error (MVFE) in Social Fund payments, although data is available on Social Fund performance relating to the Decision Making and Appeals (DMA) aspect of benefit case work. To bring Social Fund in line with the other benefits an official error (Monetary Value of Error, or MVE) sample is planned to be introduced during 2008-2009, this replaces the DMA only sample and cases will be selected proportionate to benefit expenditure.

10 Disclosure on the Face of the Account

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

11 Extra Statutory

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

12 Social Fund Balance

	Liabilities £000	Assets £000
HM Paymaster General		29,001
Social Security Benefits and other Payments Vote		43,839
Alliance and Leicester Commercial Bank	3,209	
Administration and Miscellaneous Services Vote		3,845
National Insurance Fund		1,016
Other Government Creditors / Debtors (Net)	2	
Timing Difference		10,815
Balance of Social Fund	85,305	
	<u>88,516</u>	<u>88,516</u>

Lesley Strathie
Accounting Officer

8 July 2008

Annex

Accounts Direction given by HM Treasury

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

Jamie Mortimer
Treasury Officer of Accounts

Schedule – Format of Account and Disclosure Requirements

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

- 3 The notes shall include
 - a an explanation of the financial basis of the Social Fund;
 - b a statement of loans including an age analysis of loans outstanding;
 - c a statement of losses; and
 - d the policy on maintaining a standing balance.

Annex

Receipts and Payments Account for the year ended 31 March XXXX

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

Statement of Balances

	20XX-XX £000	20XX-XX £000
Opening Balance		
<i>Plus</i>		
Excess of receipts over payments		
<i>Less</i>		
(Excess of payments over receipts)		
Closing Balance		
<i>The notes on pages x to x form part of this Account.</i>		

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DG Ref: F17102 008700

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
08/08

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

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ISBN 978-0-10-328788-1



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