

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

Social Fund Account 2011-12

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The National Audit Office scrutinises public spending on behalf of Parliament.

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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 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 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 1997-98 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 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, 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.

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.

Changes were implemented to the Crisis Loan Scheme from 4 April 2011 to reduce demand, these were as follows:

- Crisis Loans will no longer be paid in an emergency for items such as cookers and beds. Crisis Loan items may still be paid following a disaster such as flooding.
- The maximum rate paid for Crisis Loan for Living Expenses was reduced from 75 per cent down to 60 per cent of benefit rate. This aligns with the position for Jobseeker's Allowance cases paid at the hardship rate.
- Crisis Loan awards for Living Expenses, excluding benefit alignment payments, will normally be capped to three awards in a rolling twelve month period.

These changes have had a significant impact on the Crisis Loan spend in the 2011-12 financial year.

Community Care Grants

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

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. Changes to the rules were introduced on the 24 January 2011, since then the Grant has been limited to the first child for babies born on or after the 11 April 2011. This has had the effect of significantly reducing applications and corresponding expenditure in the 2011-12 financial year.

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, 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. 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, 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 £25.00 (maintained at a level of £25.00 for the fourth 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 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 at least one person qualified by age in the qualifying week. In 2011-12 the qualifying week was week commencing 19 September 2011.

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 reduced from £250 to £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 reduced from £400 to £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 2011-12 £587 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 £602 million.

During 2011-12 £47 million Funeral Expenses Payments were issued, £0.478 million was recovered this year and £40 million was written off the total Funeral Expenses 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 2011-12 there was no additional HMT investment into the Discretionary Loan fund. There was a risk that this, accompanied with a high demand for Social Fund Loans, would give rise to a deficit on the fund. The demand management measures mentioned above, coupled with an increased resource and focus on recovery work which significantly increased the level of recoveries achieved, served to ensure the continued solvency of the Fund. Other impacts of the financial performance in the year included the reduction in the debt stock and the ability to partially repay previous investment into the Fund by the HMT.

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 £21 million to £90 million in 2011-12. This is primarily due to drawing down more funding than required for Winter Fuel Payments.

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 2012 and will give a detailed account of the activities and expenditure on the Social Fund for 2011-12.

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

Under the Social Security (Administration) Act 1992, HM Treasury has appointed me, the Permanent Secretary of DWP, 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*, (*FReM*), 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* (*FReM*) 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

3 July 2012

The Social Fund Governance Statement

1 April 2011 - 31 March 2012

The Governance Framework

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, which replaces the Statement on Internal Control from 2011-12, 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.

The Governance Statement covers similar ground to last year's Statement on Internal Control, and additionally discloses how the Department complies with the Corporate Governance Code.

This Statement has been endorsed by the Departmental Board and is informed by the board's annual review of its own processes and practices. The Departmental Audit Committee, (DAC), has provided a view on the Department's assurance arrangements, covering the full financial year, and internal audit opinion on the quality of the systems of governance, management and risk control.

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.

A review of the effectiveness of the Departmental Board was carried out by the lead non-executive, Ian Cheshire, in March 2012. The review concluded that, although still in its formative stages, the Board was heading in the right direction and was working well. A second effectiveness review – involving more detailed conversations between the lead non-executive and individual Board members – is scheduled to take place within 2012-13. Further detail of Board activity is available within the Departmental Governance Statement.

The Departmental Audit Committee is a permanent sub-committee of the Departmental Board and is chaired by a non-executive Departmental Board member. The other members of the DAC are not members of the Departmental Board. The membership of the DAC is entirely independent non-executives in line with Treasury guidance in the Audit Committee Handbook. DAC provides an independent view of the appropriateness, adequacy and value for money of the Department's governance, risk management and assurance processes.

A new Chair of the DAC was appointed in June 2011. In terms of the DAC's performance, the most recent effectiveness review completed by the Committee agreed it was continually improving its performance and had continued to add value for the Department.

DAC receive 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 largely satisfied that the Department has complied with the Code and is confident that each of the main responsibilities of the Committee have been met informally by the Principal Accounting Officer, HR Director General, and lead non-executive Board member.

Whilst the DAC, and therefore the Departmental Board, has overseen the governance of the Social Fund throughout 2011-12, there has been a change in arrangements during the year due to the restructure of the Department – notably the removal of Agency status from Jobcentre Plus in October 2011.

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

The following section describes further the governance framework, apposite to the Social Fund, in the context of the Departmental restructure.

April 2011 – October 2011

The Accounting Officer for the Social Fund was Darra Singh, Jobcentre Plus Chief Executive, until 3 October 2011.

From April 2011 to October 2011, under Jobcentre Plus, the Corporate Governance Committee for Jobcentre Plus incorporated the functions and responsibilities of an audit committee for the Agency. The committee was chaired by a non-executive Director, Ken Ludlam, who was also a member of the DAC. The committee reviewed progress against the significant risks to the Fund as well as receiving the Business Controls Dashboard report and Quarterly Assurance reports from the Risk Assurance Division, both of which contain sections on the Social Fund. The final meeting of this committee was held on 21 September 2011.

The Social Fund Task Force Group, chaired by Jobcentre Plus Chief Executive Darra Singh, was the senior executive body accountable for driving improvements and developments across a number of challenges including the Social Fund Debt Reconciliation, Debt Recovery strategy, Document control processes, Regularity quality of decision making and Strategic Plans for Social Fund Policy. The Task Force included representation from Social Fund Operational and Finance Teams, Shared Services, Strategy and Debt. The last meeting of the Task Force was in September 2011.

The Social Fund Management Committee (SFMC) chaired by the Director of Change and Products Directorate considered a range of issues and risks covering Social Fund policy, reform, finance and operations. The last meeting of the SFMC was in September 2011.

October 2011 – March 2012

Following the structural changes affecting the Department and the Agency status of Jobcentre Plus, the Permanent Secretary of the Department, Robert Devereux, took over the role of Accounting Officer for the Social Fund from 3 October 2011.

The Departmental Audit Committee (DAC) 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 DAC has asked the C&AG, subsequent to publication of the Department's Annual Report and Accounts, to explain how he has reached his judgement to qualify the Department's Annual Report and Accounts in respect of the level of Fraud and Error. The DAC recognises that the judgement is a matter reserved for C&AG. However, a better understanding would assist the DAC to understand how it can support the Principal Accounting Officer in taking measures to address the qualifications.

The DAC recognised the continuing focus on reducing the levels of fraud and error reported by the Department and the performance achieved in a challenging operating environment. In particular, the DAC considers that in the case of the Social Fund White Paper Account, the achievement of an estimated error rate of 1.47 per cent (or £45.63 million) from a total Fund of £3,098 million was welcomed in the context of substantially high volume, low value payments with a high level of discretionary decision making; this also represented a significant improvement from 2010-11 when an estimated error rate of 2.73 per cent was reported. The DAC was not persuaded that this justified a continuation of the qualification.

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

Risk, Controls and Compliance

The Operational Executive Team (OET) monitored risks faced by the Social Fund by consideration of Social Fund Risks incorporated in the Risk, Controls and Compliance Dashboard. OET also monitored the performance of the Fund, receiving monthly management accounts. This incorporated oversight of the monthly financial performance of the Fund and progress against significant financial risk areas.

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.

Executive Directors have specific responsibility for identifying their highest risks and long-term threats in the context of the Strategic Plan. Oversight and challenge has been provided by the Jobcentre Plus Executive and the Corporate Governance Committee (CGC), and since the departmental restructure, by the departmental Operational Executive Team and the Departmental Audit Committee.

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

A specific Social Fund risk is included in the Departmental Strategic Risk Register. The Departmental methodology is used to identify and assess the risks which are rated and prioritised, with the level of control applied being relative to the Department's tolerance levels.

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 works closely with the Department to improve decision making.

The Internal Audit Division (IAD) provide overall assurance over key areas of Departmental performance and during 2011-12 they undertook reviews of a number of Social Fund processes.

Audit and Other Reports to Management

In the year the IAD undertook reviews of Clerical Cold Weather Payments, the Document Scanning and Retrieval process, the Quality Assurance Framework, Passported Debt and the process for Alignment Payments.

The reviews covering Clerical Cold Weather Payments, Document Scanning and Retrieval and the Quality Assurance Framework were all given a 'Reasonable' assurance and the key recommendations are being acted upon.

The Passported Debt review was given a 'limited' assurance. Recommendations within the report included further communicating the Passported Debt guidance to staff, reviewing the costs and benefits of a process to identify passported debts, and undertaking a work study to identify resource requirements for the process. The report also noted the shortcomings in the current identification process, whereby the whole population of potential passported debts is not captured. All these issues are to be addressed by ongoing work on the process.

The Social Fund Alignment Payment Process review was also given a 'limited' assurance. Recommendations, which have been accepted, include the collection of alignment payment management information, oversight of policy to inform the Universal Credit process, alignment of policy and systems, the creation of controls to ensure payments are made in line with intent, and improved communications between Social Fund Crisis Loan Decision Makers and Benefit Processing Staff.

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, is an important stakeholder and his Annual Report for 2011-12 is due to be published in July 2012.

Risk assessment

Three categories were used to differentiate the significant control challenges for the 2010-11 Social Fund Statement on Internal Control (SFSIC);

- Regularity.
- Debt.
- Financial Position.

For the 2011-12 Governance Statement these categories of significant risk remain relevant. The significant control challenges for 2011-12 are set out below.

Regularity

Failure to improve the quality of SF Decision Making and Document control would lead to the continued qualification of the account.

a Document Management

Issue: The business faces significant challenge in the storage, retention, retrieval and disposal of customer documentation. The ability to retrieve original documentation when requested is a fundamental business requirement. Part of this retrieval is the NAO and IAD regularity sample request where failure to locate documentation has contributed to the Social Fund Account Qualification.

Action: All Social Fund cases and documents are currently being scanned within 5 days of decisions being made. Nationally controlled movement of work and implementation of Active Operations Management has significantly reduced the volume of work being moved from site to site, which reduces the risk of missing documentation.

The Social Fund commissioned an IAD review of document control and document scanning which reported in January 2012. The recommendations from the IAD review and a 'Go Look See' are being implemented and a number of specific management checks and controls are in place to improve performance in the document control challenge. These include;

- Completion of daily reconciliations of scanning workloads;
- Staff quality checks/indexing checks on scanning to ensure correct storage of the scanned documents;
- Nominated missing document control person on each site.

In addition changes have been made to document control guidance to support this work.

b Quality of Decision Making

Issue: Errors in decision-making continue to be identified by both NAO and IAD, in their regularity sample selections, contributing to the Regularity Qualification on the Social Fund Account.

Action: The Social Fund commissioned an IAD Review of the 'Quality Assurance Framework' in 2011 to support work being undertaken to improve Decision Making. A 'Reasonable Assurance' was given and all recommendations were implemented by December 2011. Nationally the Social Fund is now achieving the 80 per cent benchmark and consistent and robust management is in place to maintain this result.

There is continued focus on improving quality through the use of the Quality Assurance Framework (QAF), by; targeting poorer performers, assuring full compliance with the process and checking the standard of all checkers. A Social Fund Line Manager Assessment (LMA) has been introduced for all newly trained staff to ensure quality is embedded to QAF standard from the outset. Also in 2011-12 there has been significant focus on Funeral Payment decision-making and checking as this payment stream was a significant contributor to the 2010-11 qualification.

Debt

Inability to sufficiently corroborate the £1.2bn debt balance would lead to the continued qualification of the notes to the accounts.

a Debt Reconciliation

Issue: The detail of customer information, including loans and repayments, is held in SFCS and should be reconcilable to the accounting information held in PACS (Programme Accounting Computer System). At the end of 2011-12 the difference between the two amounted to an estimated £17 million (1.4 per cent of the total 2011-12 debt stock, Loans and Funeral Payments, of £1,229 million).

There are, however, varying differences at award type level and the work outlined below will consider these accordingly.

Action: Work has continued to analyse debt data and further refine the reconciliation process for debt balances. Assurance over the factors contributing to the debt differences is to be sought in three ways;

- i historic factors
- ii legitimate timing differences due to system interfaces
- iii other technical issues

Further work is being undertaken, drawing on cross-departmental expertise, focusing on a dimensional approach reconciling the payments, recoveries and abandonments for each type of award on the two systems. This will ensure the overall, and award-level, reconciliation is complete.

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.

Action: For qualifying benefits administered by the Department, guidance has been in place since 2010 to ensure potential passported debts are identified and referred for collection.

Work has been undertaken to produce a scan to identify potential passported debt cases and quantify the value of any omitted debt. Initial results indicate a very small number of passported debt cases. Further work is required to improve the specification of the scan and calculate a quantifiable estimate of the potential level of omitted debt.

Further consideration is also being given to the viability and value for money of building an appropriate routine with Her Majesty's Revenue and Customs (HMRC) where Tax Credits are the qualifying benefit.

c *Debt Relief Orders & Bankruptcies*

Issue: Debt Relief Orders (DROs), a form of personal insolvency, were introduced in April 2009. The orders remain in place for 12 months, after which time, all debts listed in the order are written off. During this 12 month period, no repayments of listed debts can be sought.

As with bankruptcies, the Department had continued to make deductions from customers' benefit as there was a presumption that Social Security debts were excluded from the ruling over repayments. At the beginning of 2011-12 the department was awaiting the outcome of a Supreme Court ruling on entitlement to continue to make deductions during this period. On 14 December 2011 it was ruled that Social Fund debts were within scope for Debt Relief Orders and the fund would be required to make repayments of amounts recovered against these debts during their moratorium period. The ruling also meant that the Social Fund lost the authority to recover debts from persons covered by a Bankruptcy Order.

On 19 March 2012 legislation was amended to exclude Social Fund debts from Debt Relief Orders and Bankruptcy Orders.

Action: Measures have been in place since the beginning of the year to ensure that no deductions were made against loans we had been notified were covered by a DRO. A process to refund any amounts recovered on these loans is now in place with amounts being repaid to customers or off-set against other, non-DRO departmental debt. Loan debt included in the DRO will be due for write-off at the end of their 12 month moratorium period.

Following the interpretation of the ruling as also applying to bankruptcy cases, a process was put in place to cease deductions against all Social Fund debts which we had been notified were covered by a Bankruptcy Order. The departmental legal team is considering the implications of this ruling on the requirements to undertake a refund exercise, similar to that conducted for Debt Relief Orders.

Financial position

Potential Deficit on the Fund

Issue: There was a significant risk in 2011-12 that, with the high demand for Social Fund loans, particularly Crisis Loans, arising from the Economic Downturn, and the absence of any additional investment into the Fund by HMT from 2011-12 onwards, the Fund could face a significant deficit, unless remedial action was taken.

Action: A number of demand-management measures were introduced in April 2011 to control the demand in the fund:

- Crisis Loans for items are no longer paid. There is some residual support through the Community Care Grant scheme for people following a verified disaster.
- The daily rate paid for Living Expenses has been reduced from 75 per cent to 60 per cent of benefit rate. This will align with the position for Jobseekers Allowance cases paid at the hardship rate.
- A cap of three Crisis Loan awards for general Living Expenses in a rolling twelve month period has been implemented.

These changes have been effective in managing the demand on the Fund.

In addition, greater resource has been assigned to recovery work, along with the introduction of smarter ways of working, and this has resulted in record recoveries being generated. This, in conjunction with the demand measures, has ensured the continued solvency of the Fund, enabling recoveries to fund new loan requirements. Other benefits include an overall reduction in the debt stock and a further contribution to repaying Treasury previously loaned Funds.

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.

Further Issues

Cheque Encashments

In addition to the significant risks identified above, a further issue arose and was addressed in the year, in relation to cheque encashments. Cheques are issued in a number of instances covering the range of Social Fund awards. The controls and reconciliations over the accounting treatment of issued cheques, their subsequent encashment and in some cases, their expiry, have not been sufficiently robust.

There is no evidence of customers being disadvantaged. There was a risk, however, that the figures within the Social Fund Account for 2011-12 could have been misstated. Following a thorough investigation an accounting adjustment of £1 million was made to restate the expenditure within the 2011-12 account. The accounting for these issues will continue to be monitored closely during 2012-13 and the root causes corrected.

Social Fund Reform

A number of further reform measures are to be introduced in 2012-13, along with the more far-reaching reforms as contained within the Welfare Reform Act 2012.

The 2012-13 measures include;

- For non-householders who face an emergency or disaster situation the maximum Crisis Loan award will be 30 per cent of the appropriate benefit personal allowance rate, rather than the current rate of 60 per cent;
- Crisis Loans awarded to alleviate hardship, due to Child Tax Credits not being received will be treated as alignment payments and be exempt from the cap that limits them to three awards in 12 months;
- From 8 May 2012 Budgeting Loans can be awarded to help families to buy maternity and baby items or to help towards meeting the costs of a relative's funeral; this is in addition to the help that is available by way of a Sure Start Maternity Grant or a Funeral Expense Payment from the regulated Social Fund.

Social Fund Reforms are part of the wider welfare reforms and are at the heart of the Government's plans for localism. The reforms support the DWP's direct commitments as set out in the Welfare Reform Act.

The Act abolishes the discretionary Social Fund from April 2013 and introduces a system of payments on account which consist of advances of benefit to replace Budgeting Loans and Crisis Loan alignment payments. The reforms also pave the way for delivery of new Local Welfare Assistance which replaces the provision currently met by Community Care Grants and Crisis Loans for general Living Expenses.

The Welfare Reform Act 2012 also introduces Universal Credit which will result in the cessation of certain legacy benefits over time. The current Regulated Social Fund eligibility criteria are based upon income related legacy benefits and will therefore need to be realigned with Universal Credit.

The associated future accounting and reporting arrangements for the Social Fund are currently under review.

*Robert Devereux
Accounting Officer*

3 July 2012

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 2012 under the Social Security Administration Act 1992. These 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 Social Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; 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.

Basis for qualified opinion on Regularity

In the year to 31 March 2012, the Social Fund paid £3,098 million in discretionary awards (which comprise Budgeting Loans, Crisis Loans and Community Care Grants) and regulated awards (which comprise Funeral Expenses Payments, Sure Start Maternity Grants, Cold Weather Payments and Winter Fuel Payments). We estimate that £45.6 million was not paid in accordance with Secretary of State directions, issued under the Social Security Administration Act 1992 and the Social Security Contributions and Benefits Act 1992. Such payments were, by definition, paid without appropriate authority and I have therefore concluded that these payments have not been applied to the purposes intended by Parliament and do not conform to the authorities which govern them.

Qualified opinion on Regularity

In my opinion, except for an estimated £45.6 million of Social Fund awards that were not paid in accordance with Secretary of State directions, 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.

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 £1,229 million of debt reported in the notes to the financial statements.

Qualified Opinion on Financial Statements

In my opinion, 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 for the year ended 31 March 2012 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 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for 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:

- the financial statements are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Amyas C E Morse
Comptroller and Auditor General
9 July 2012

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

Report by the Comptroller and Auditor General

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. For the past two years, I have also limited the scope of my opinion in relation to the Social Fund debt balance disclosed due to the Department not being able to provide adequate assurance over the completeness and accuracy of the debt balance.

Welfare Reform

The Welfare Reform Act 2012 introduces a fundamental reform to the welfare system, which will have a significant impact on the nature and operation of the Social Fund going forward. This will include abolition of Discretionary Awards from April 2013 and the creation of new local welfare assistance to replace Community Care Grants and Crisis Loans. These reforms represent a significant challenge to the Department.

Audit Opinion

Regularity Qualification – Due to the material level of irregular payments found in Social Fund awards, I have qualified my regularity opinion on the 2011-12 Social Fund White Paper Account. Issuing an audit qualification is a serious matter, and the fact that similar qualifications have been in place for some time does not lessen that seriousness.

Debt Qualification – I have again limited the scope of my audit opinion on the debt notes disclosed in the Account due to the Department being unable to provide me with adequate assurance over the completeness and accuracy of these balances.

Regularity Qualification

In 2011-12, the Social Fund made payments of some £3,098m (2010-11: £4,188m) to customers. As part of this year's audit, my team have sample tested across each of the seven Social Fund award types to determine the accuracy of the payments made, and whether they have been issued in line with Parliament's intentions.

I use the results of the regularity testing to estimate the most likely error (MLE) across each award type. As with all such calculations, the estimate is subject to a degree of statistical uncertainty which is quantified in the form of confidence intervals and expressed as a percentage expectation that the true value of the estimated most likely error lies within a particular range. The NAO apply a 95 per cent confidence interval to provide the error range.

For 2011-12, our regularity testing identified an estimated £45.6m of payments which were not made in accordance with Parliament's intentions. This represents 1.5 per cent of total payments made (2010-11: £114.3m, some 2.7 per cent of total payments made). Whilst the most likely error is £45.6m, actual overpayments could lie in the range from £25.0m to £66.3m.

Over the past years both I and my predecessors have repeatedly set out a clear definition of what we consider to be irregular expenditure. The rules governing the regularity of expenditure are rightly rigorous. If the loans and grants that make up the Social Fund are so complex that they drive high levels of fraud and error that the Department considers cannot be reduced without disproportionate cost and effort, then in my view the remedy lies in the Department seeking legislative change.

Error Categorisation

As in previous years, I have analysed the most likely error into four main categories, as shown in table 1 below. This provides a clearer picture of the levels of error by award type within the Fund and highlights areas for the Department to focus their efforts to reduce the level of irregular payments.

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	—	—	4.11	10.08	14.19	3.13	453.17
Crisis Loans	3.27	8.89	4.12	—	16.28	12.18	133.63
Community Care Grants	—	—	3.25	0.45	3.70	2.61	141.82
Sure Start Maternity Grants	0.45	—	0.45	—	0.90	1.95	46.04
Funeral Expenses Payments	—	2.69	7.87	—	10.56	22.45	47.04
MLE of qualified awards	3.72	11.58	19.80	10.53	45.63	5.55	821.70
Cold Weather Payments	—	—	—	—	—	—	128.73
Winter Fuel Payments	—	—	—	—	—	—	2,147.34
Overall most likely error	3.72	11.58	19.80	10.53	45.63	1.47	3,097.77

Table 1: Extrapolation of 2011-12 error results

Information Management

The Department's errors relating to information management include:

- Missing case papers; and
- Missing or incomplete loan agreements (and other key documents).

These errors arise because the Department is unable to provide the information, such as the original application forms, decision sheets or electronic call recordings required to support the payment. Without this information, the Department cannot demonstrate compliance with the Secretary of State Directions or Regulations.

An estimated £15.30m (2010-11: £55.45m) of error resulted from missing or incomplete documentation or information. This is a reduction compared to 2010-11, which the Department believes is primarily due to the embedding of a project begun in 2010-11 to electronically scan all key Social Fund documents, with the aim of better tracking, storing and managing documentation.

One of the positive results of the project is that it has allowed the Department to provide substantially more of the documentation required to support our sample of payments made. However, I still found instances where the Department was unable to provide whole cases or other key information to the NAO. The Department believes this is due to a small number of documents being mislaid before the scanning process. There were also a small number of instances where the Department was unable to obtain call recordings to support telephone applications made, especially in relation to a new process set up in 2011-12, whereby customers can apply for a Funeral Expenses Payment by telephoning the Bereavement Service.

Compliance with Secretary of State Directions and Regulations

The other two error categories relate to compliance with Secretary of State Directions and Regulations:

- Non-compliance with Secretary of State Directions or Regulations; and
- Suspected non-compliance due to inadequate documentation.

These errors arise when the Department has either failed to comply with Secretary of State Directions or Regulations, or where the level of documentation provided is insufficient to demonstrate compliance.

The Secretary of State Directions and Regulations set out the eligibility criteria for each Social Fund award. Departmental staff are required to issue awards in line with the Directions and Regulations, but they may exercise some discretion over the amounts paid.

Our assessment is that the most likely error arising from actual or suspected non-compliance with the Directions and Regulations in 2011-12 was £30.33m, some 0.98 per cent of total expenditure (2010-11: £58.87m, 1.41 per cent of total expenditure). Again, the level of error found has reduced. The Department believes that this reflects improvements in the quality of decisions and documentation as a result of the Quality Assurance Framework (QAF) first introduced in 2010-11.

Actions to Improve the regularity issues

The Department has made progress in addressing my on-going concerns over the regularity of Social Fund expenditure, and has ensured the action plan reported last year to address the document control issues at processing sites was implemented.

The results of our testing demonstrate the positive impact of the introduction of both scanning and the QAF, which has contributed to a reduced level of error this year. The Department is looking at further improvements in order to continue to drive down the level of error.

Regularity conclusion

I estimate that £45.6m of payments relating to Budgeting Loans, Crisis Loans, Community Care Grants, Sure Start Maternity Grants and Funeral Expenses Payments have not been made in accordance with Parliament's intentions or do not conform to the authorities that govern them.

In 2010-11, I removed Sure Start Maternity Grants from my qualification. However, my regularity testing in 2011-12 found a most likely error of £0.9m (2010-11: nil), which is 1.95 per cent of 2011-12 Sure Start Maternity Grant payments. I have, therefore, included Sure Start Maternity Grants within the regularity qualification this year.

No errors were identified in the testing of Cold Weather Payments (2010-11: £21.54m). I have therefore removed Cold Weather Payments from my regularity qualification for 2011-12. No errors were identified in Winter Fuel Payments, and as such this award type remains excluded from the regularity qualification.

Debt qualification

In prior years, I have reported on the Department's difficulties in reconciling the debt balance recorded on the accounting system to the supporting individual customer debt records. These difficulties remain, and as a result the Department is still unable to provide adequate assurance that the debt balance disclosed in the 2011-12 account is complete.

Debt reconciliation

At 31 March 2012, there is a net difference of £17.1m (31 March 2011: £21.9m) between the accounting system and the supporting debt administration system. This net figure masks a gross difference of £36.3m (2010-11: £26.7 m), which results from opposing movements in the underlying loan types (Budgeting Loans, Crisis Loans and Funeral Expenses Payments).

As I have reported in previous years, the Department is taking steps to address the difference by undertaking a large scale 'matching' process to try to reconcile the balance on the accounting system with that in the customer debt records in order to understand the root causes of the discrepancy. Work is still on going and there are as yet no firm conclusions from this work.

This unexplained difference casts doubt over the accuracy of the debt figure in the accounts and the Department has been unable to provide me with alternative information to support this balance. As a result I have again limited the scope of my audit opinion over the Social Fund debt balances.

Passported error

Three Social Fund award types (Cold Weather, 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 benefit, then they are similarly not entitled to the Social Fund award. Such overpayments are known as "passported errors", and are recoverable in line with the relevant legislation.

Last year, I reported my concerns that the Department does not have a robust process for the identification and recovery of these overpayments, which could lead to a material omission from the Social Fund debt balance. During the year, the Department has continued to raise internal awareness of the passported error issue and has issued new guidance as to the actions that should be taken when such cases are identified. However, work carried out by the Department during the year has shown continued weaknesses in this process leading to debt remaining unidentified.

During the year, the Department began constructing a report from its electronic systems, with the aim of producing a statistically robust estimate of the value of missing debt resulting from passported error. This work is still incomplete and the Department has therefore used a set of high level assumptions to produce a likely range of cumulative missing debt, which as at 31 March 2012 it estimates lies between £4m and £22m (2010-11: £3m and £15m).

Overall, I consider the continued uncertainty as regards passported error to cast doubt over the completeness of the Social Fund debt balance. As a result I have again limited the scope of my audit opinion over the Social Fund debt balance.

Debt conclusion

The debt balance continues to present a significant challenge to the Social Fund. The unexplained differences and the uncertainty over the completeness and accuracy of these balances has lead me to again limit the scope of my opinion over the Social Fund debt balances.

Whilst the Department continues to work towards resolving these debt issues, progress has not been as rapid as I would have expected. I have therefore asked the Department to produce a clear action plan for resolving the debt differences along with assurances from the Departmental Accounting Officer that these issues will be resolved in line with the proposed timetable.

Summary and conclusions

My audit of the Social Fund White Paper Account has shown that the Department has made improvements in some of the areas where I have previously expressed concerns, especially in the regularity of payments. However, challenges remain. The Department must build on these improvements to resolve fully the regularity and debt issues. I will continue to monitor progress on both regularity and debt issues and will provide an update in my Report on the 2012-13 Social Fund White Paper Account.

Amyas C E Morse
Comptroller and Auditor General
9 July 2012

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

Receipts and Payments Account for the year ended 31 March 2012

	2011-12 £000	2010-11 £000
Receipts		
Receipts from the Secretary of State		
Discretionary	142,000	
Regulated	207,000	
Winter Fuel Payments (Regulated)	<u>2,165,838</u>	
	2,514,838	3,672,137
Repayments of Budgeting Loans	452,942	422,118
Repayments of Crisis Loans	148,994	125,431
Repayments of Funeral Expenses Payments	478	341
Refund of Social Fund Overpayments Discretionary	64	44
Refund of Social Fund Overpayments Regulated	1,205	994
	3,118,521	4,221,065
<i>Less</i>		
Payments		
<i>Discretionary</i>		
Budgeting Loans	453,171	450,159
Community Care Grants	141,817	141,170
Crisis Loans	133,630	229,506
Regulated		
Winter Fuel Payments	2,147,347	2,756,235
Funeral Expenses	47,036	44,944
Sure Start Maternity Grants	46,040	130,899
Cold Weather Payments	128,730	435,410
	3,097,771	4,188,323
Excess of payments over receipts		
Excess of receipts over payments	20,750	32,742

Statement of Balances

	2011-12 £000	2010-11 £000
Opening Balance	69,601	36,859
Excess of payments over receipts	0	0
Excess of receipts over payments	20,750	32,742
Closing Balance	90,351	69,601

The notes on pages 22 to 25 form part of this account.

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 2010-11 are given for comparison. They are taken from the Account for that year, (House of Commons Paper No. HC1307 of 2010-11).

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 £89.1 million as at 31 March 2012. This is primarily due to drawing down more funding than required for Winter Fuel Payments.

4 Cold Weather Payments

The 2011-12 winter was not as severe as in previous years. The 5 million payments made this year at a cost of £129m were significantly lower than the 17 million payments made last year at a cost of £435m.

5 Statement of Loans

	Budgeting Loans £000	Crisis Loans £000	Total £000
Amount outstanding at 1 April 2011	690,043	541,013	1,231,056
Amount loaned	453,171	133,630	586,801
Transferred to overpayments	(107)	(24)	(131)
Amount recovered	(452,942)	(148,994)	(601,936)
Adjustments and amounts written off	(2,812)	(2,133)	(4,945)
Amount outstanding at 31 March 2012	<u>687,353</u>	<u>523,492</u>	<u>1,210,845</u>

The amount for loans outstanding at 31 March 2012 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.

The legal position surrounding the treatment of Social Fund debt in relation to Debt Relief Orders was resolved on 14 December 2011 at the Supreme Court, who ruled that Social Fund debt can be included within a DRO. The Court also ruled that the DWP has lost the authority to recover Social Fund debts in relation to Bankruptcy Orders.

The implications for the Social Fund Account are:

- The total debt figure includes an estimated £1.6 million that is held within customer DROs. This amount will fall for write-off during the course of 2012-13 as the DRO reaches maturity at 12 months.
- There is also an estimated £1.7 million of debt included in the total debt figure in the table above which is held within DROs that have previously matured. No recovery measures are being taken on these debts, but the amounts have not been written off due to system constraints.
- Following the above ruling any previous deductions made against loans included in a DRO are required to be refunded. During 2011-12 the amount of deductions refunded, or offset against other non-DRO loans, totalled £0.6 million.
- The corresponding figures relating to Bankruptcy Orders are significantly lower than DROs, and immaterial to the reported debt figures.

6 Age of Loans Analysis

Between April 1988, when the Social Fund loans scheme was introduced, and December 2011, loans of some £10,483 million have been paid. Over this period, £9,227 million of these loans have been recovered and £44 million written off, leaving a balance of £1,211 million outstanding at 31 March 2012. 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
5 years and over	113,565	71,009	184,574
Between 1 year and 5 years	286,262	342,334	628,596
Less than 1 year	287,526	110,149	397,675
	687,353	523,492	1,210,845

7 Statement of Funeral Expenses Payments Outstanding

	£000
Amount outstanding at 1 April 2011	11,571
Payments made	47,036
Transferred to overpayments	(4)
Amount recovered	(478)
Adjustments and amounts deemed irrecoverable	(40,128)
Amount outstanding at 31 March 2012	17,997

Practice on the treatment of Funeral Payments was amended during 2008/09 to reflect the low level of recoveries that are typically received. The treatment 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.

8 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	317
Between 1 year and 5 years	9,371
Less than 1 year	8,309
	<u>17,997</u>

9 Statement of Overpayments

	Regulated £000	Discretionary £000	Total £000
Amount outstanding at 1 April 2011	641	163	804
New overpayments made	2,425	191	2,616
Amount recovered	(1,205)	(64)	(1,269)
Adjustments and amounts written off	(1,205)	(18)	(1,223)
Amount outstanding at 31 March 2012	<u>656</u>	<u>272</u>	<u>928</u>

The amount for overpayments outstanding at 31 March 2012 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 £602,000 (65 per cent) with Budget Loans being the next largest at £148,000 (16 per cent) the remaining £177,000 is spread across the other award types with Community Care Grants being the next largest at £95,000 (10 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 DWP Annual Reports and Accounts.

On a small sample of Winter Fuel Overpayments, however, it is apparent that not all overpayments are being correctly identified and referred to Debt Management. Whilst the sample was too small to draw firm conclusions a preliminary estimate for 2011-12 would suggest an omitted debt figure for Winter Fuel of up to £2 million.

As agreed previously with HM Treasury a process to identify overpayment debt prior to 2010-11 would not represent value for money, although any such debt remains recoverable if identified.

As such, and applying similar ratios for 2010-11 which would present an estimated figure of £2.5 million for that year, the total omitted debt could be up to £4.5 million. More statistically valid sampling will be undertaken in 2012-13 to assess the scale of any omission.

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. This then becomes Passported Debt.

This issue was identified during 2010 and guidance for staff has been issued and a detailed process designed and piloted to ensure the debt is identified and referred for recovery purposes. An estimated range of loss to the Fund for the two years 2010-11 and 2011-12 is between £4 million and £22 million, (the reported range in last year's account was £3 million to £14 million. This range has now been updated to £3 million to £15 million following the finalisation of the appropriate fraud and error rates in the qualifying benefits).

Work is continuing to quantify more accurately the level of loss and ensure the processes to identify all such debt are robust.

11 Statement of Losses

	£000
Recoverable loans impracticable to pursue (39,785 cases)	4,945
Claims for recoverable Funeral Expenses Payments abandoned due to insufficient estate (16,973 cases)	21,722
Claims for recoverable Funeral Expenses abandoned because they are impossible/unreasonable to pursue (15,766 cases)	18,406
Losses due to irrecoverable overpayments recorded during the year (15,790 cases)	1,223
	<hr/>
	46,296

12 Statement of Assets and Liabilities

	Liabilities	Assets
	£000	£000
Government Banking Service		89,133
Social Security Benefits and Other Payments Vote	2,142	
Santander commercial bank		1,309
Administration and Miscellaneous Services Vote		165
National Insurance Fund		1,901
Other Government Creditors / Debtors (Net)	15	
Balance of Social Fund	<hr/> 90,351	<hr/> 92,508
		92,508

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 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.

Robert Devereux
Accounting Officer

3 July 2012

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;
 - 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;
 - d the policy on maintaining a standing balance.

Annex

Receipts and Payments Account for the year ended 31 March XXXX

	20XX-XX	20XX-XX
	£000	£000

Receipts

Receipts from the Secretary of State

RfR – Discretionary

RfR – Regulated

RfR – Winter Fuel (Regulated)

Repayments of Budgeting Loans

Repayments of Crisis Loans

Repayments of Funeral Expenses Payments

Refund of Social Fund Overpayments Discretionary

Refund of Social Fund Overpayments Regulated

Less

Payments

Discretionary

Budgeting Loans

Crisis Loans

Community Care Grants

Regulated

Winter Fuel Payments

Funeral Expenses

Maternity Expenses

Cold Weather Payments

Excess of receipts over payments

(Excess of payments over receipts)

Statement of Balances

	20XX-XX	20XX-XX
	£000	£000

Opening Balance

Plus

Excess of receipts over payments

Less

(Excess of payments over receipts)

Closing Balance

The notes on pages x to x form part of this account

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