

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

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# Social Fund Account 2010-2011

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# Social Fund Account 2010-2011

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

The Comptroller and Auditor General, Amyas Morse,  
is an Officer of the House of Commons.  
He is the head of the NAO, which employs some 880 staff.  
He and the NAO are totally independent of government.

He certifies the accounts of all government departments  
and a wide range of other public sector bodies;  
and he has statutory authority to report to Parliament  
on the economy, efficiency and effectiveness with which departments  
and other bodies have used their resources.

Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.

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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 1997/98 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.

#### **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 24th January 2011, since then the Grant has been limited to the first child for babies born on or after the 11th April 2011. This has had the effect of reducing applications and corresponding expenditure in 2011 as the policy change also applied to applications in advance.

### **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 5 years of age. Customers receive payments of £25.00 (maintained at a level of £25.00 for the third consecutive year) for each period of 7 consecutive days during which the average temperature was or was forecast to be 0 degrees Celsius or below in areas where customers live.

### **Winter Fuel Payments**

The Winter Fuel Payments scheme was introduced by the Secretary of State by Regulations made in exercise of powers conferred by section 138(2) of the Social Security Contributions and Benefits Act 1992. These regulations, which came into force on 16 January 1998, allow for payments to pensioner households, where at least one person qualified by age in the qualifying week. In 2010/11 the qualifying week was week commencing 20 September 2010.

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 is £250 (£125 if they shared a home with another eligible person aged 60-79). For people aged 80 or over the amount payable was £400 (£200 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 £125 is made to the eligible person 60-79 and £275 is payable to the eligible person aged over 80.

### **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 Request for Resource (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 2010/11 £680 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 £548 million.

During 2010/11 £45 million Funeral Expenses payments were issued, £0.3 million was recovered this year and £42 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 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 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 standing balance on the fund has increased by £32.7 million to £69.6 million in 2010/11. This is primarily due to ensuring that sufficient funds were in place to meet the forecast Cold Weather Payments for February and March, following the extremely high expenditure in December and January. This funding was not spent as the actual Cold Weather was not as anticipated.

## 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 2011 and gives a detailed account of the activities and provisional expenditure on the Social Fund for 2010/11.

## 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 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) 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 the 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 *FReM* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the Account on a going concern basis.

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 '*Managing Public Money*', published by HM Treasury.

Darra Singh  
Accounting Officer

22 June 2011

# The Social Fund Statement on Internal Control

## 1 April 2010 – 31 March 2011

### Scope of Responsibility

- 1 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.
- 2 Since the Agency Chief Executive took over the responsibility of Accounting Officer for the Social Fund in April 2007, significant improvements in governance and control have taken place with progress in the areas of regularity and accounts production, against the challenges of significantly increased applications to the fund, and tightening budgetary constraints. A dedicated National Social Fund Manager within the Benefit Centre Directorate leads on the delivery and operational framework.
- 3 A dedicated Social Fund Finance team continues to work closely with the Shared Services accounting services provider and there have been significant improvements in the processes and procedures around accounts production.
- 4 These improvements have included a change to the method of accounts production to a more robust process based on a single system source. This has allowed for routine monthly Social Fund accounts to be prepared for Jobcentre Plus Board review and also, for the first time, a full Interim Account being prepared and audited at Period 9.
- 5 Recognising the extent and complexity of the issues facing the Social Fund and to further support the significant on-going work to strengthen the Social Fund control environment, this year I have created a Social Fund Task Force, led by myself as Chief Executive. This Task Force has driven forward improvements in the controls and processes of the Social Fund and we will continue to use this and other fora within the Agency, some of which are described in this statement, to identify issues and advance improvements within the Social Fund internal control environment.
- 6 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 Client Groups. The Fund is primarily administered by Jobcentre Plus, an Executive Agency of the Department for Work and Pensions (DWP) and, as such, operates under its internal control environment. My Board and Management Team, in managing the totality of its activities, apply this control environment to Social Fund activities as appropriate. The only exception is that the Pension, Disability and Carers Service (PDCS) administer Winter Fuel Payments, and as such these activities are carried out within its internal control environment.
- 7 This statement incorporates an assurance, provided by PDCS, to Jobcentre Plus, that, throughout 2010/11, effective and efficient internal controls were in place for the production of the Winter Fuel Payments paid on behalf of Jobcentre Plus.
- 8 Responsibility for Social Fund processing and delivery lies with the Jobcentre Plus Chief Operating Officer, whilst policy, change impact and improvements to the Fund fall under the remit of the Jobcentre Plus Director of the Change and Products Directorate. Responsibility for the financial oversight and financial management of the Fund lies with the Jobcentre Plus Finance Director. All Directors are part of the Jobcentre Plus Board.
- 9 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

- 10 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 on-going 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 2011 and up to the date of approval of the Annual Report and the White Paper Account and accords with HM Treasury (HMT) guidance.

## Capacity to handle risk

- 11 The Jobcentre Plus Chief Operating Officer and the Director of Change and Products Directorate 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 to the Accounting Officer as to the effectiveness of their risk management arrangements through the Letter of Assurance (LoA) process.
- 12 Executive Directors have specific responsibility for identifying their highest risks and longer-term threats in the context of the Strategic Plan. Oversight and challenge is provided by the Jobcentre Plus Executive and the Corporate Governance Committee (CGC) who review the Jobcentre Plus Risk Register at quarterly and six monthly intervals respectively.
- 13 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

- 14 A specific Social Fund risk is included in the 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 Agency's tolerance levels.
- 15 The system of internal control within the 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 and performance reporting to the Jobcentre Plus Board; and
  - 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.
- 16 A dedicated team within my Finance Directorate provide oversight control over the financial management of the Social Fund and work with a range of stakeholders across the Agency and the Department to drive improvement activities.

## Review of effectiveness

- 17 As Accounting Officer for the Social Fund, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the Risk Assurance Division, (RAD), which provides Jobcentre Plus' internal audit function, and the executive managers within Jobcentre Plus, who have responsibility for the development and maintenance of the internal control framework. In addition, the work of PDCS, in respect of Winter Fuel Payments and comments made by the external auditors in their Audit Completion Report and other reports also inform my review. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Jobcentre Plus Board, the Jobcentre Plus Corporate Governance Committee and a comprehensive Action Plan to address weaknesses and ensure continuous improvement of the system is in place.

- 18 The Jobcentre Plus CGC incorporates the functions and responsibilities of an audit committee for the Agency and works with RAD to focus on the areas of the business at greatest risk. The Committee is chaired by Kenneth Ludlam, a non-executive Director of the Jobcentre Plus Board. The CGC receives regular updates on actions to address identified weaknesses with the Social Fund system of internal control. This allows them to assess the effectiveness of mitigation actions and, where appropriate, request further work to be undertaken to strengthen the control environment.
- 19 Jobcentre Plus Executive 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 Letter of Assurance process. Challenge or support to these statements is provided through the Business Controls Dashboard which aggregates information to determine the effectiveness of internal controls and which is presented to CGC on a quarterly basis. A detailed update was presented to CGC in March 2011, setting out the management responses to recommendations contained within the National Audit Office (NAO) final Audit Completion Report for 2010/11 and the work being progressed against these recommendations.
- 20 RAD provides an overall assurance over key risk areas of Jobcentre Plus performance in-year. During 2010/11, RAD undertook a review of the significant control challenges which led to the NAO Social Fund account qualification. This resulted in an overall Limited Assurance level.
- 21 The Independent Review Service, which is independent to the Department, reviews decisions made by Social Fund caseworkers and works closely with Jobcentre Plus to improve decision making.
- 22 The Social Fund Task Force Group has a robust action plan in place designed to drive forward a range of initiatives to address the key control weaknesses that currently contribute to the accounts qualification. A specific Social Fund Management Committee, comprising of senior stakeholders, oversees the operation of the Social Fund, providing early warning of emerging risks in order to strengthen the control environment. The Social Fund Management Committee is chaired by the Jobcentre Plus Director of the Change and Products Directorate.

### Significant Control Challenges

- 23 The volume of applications to the Social Fund, particularly for Crisis Loans, has continued to increase throughout the year. Material increases in applications impact upon all aspects of Jobcentre Plus Social Fund business and changes the overall control environment in which our internal control regime functions.
- 24 Within the 2009/10 Statement on Internal Control (SIC), Jobcentre Plus grouped the various Significant Control Challenges into four categories;
- Regularity;
  - Account Production;
  - Debt; and
  - Other.
- 25 For the development of the 2010/11 SIC, these key categories remain relevant although significant progress has been made against Account Production to the extent that this no longer represents a Significant Control Challenge.
- 26 The 2009/10 Social Fund Account was laid in December 2010 following a fundamental overhaul of the methodology for its production. This new process was subsequently embedded within the business and monthly management accounts are now routinely produced for the Jobcentre Plus Board following a quality review performed within Jobcentre Plus Finance.
- 27 A further development has been the inaugural production of a full Interim Social Fund Account at Period 9 which was subsequently audited by the NAO. This was a positive exercise and sound preparation for the year-end Account process.

- 28 Whilst this revised approach has alleviated concerns over the integrity of the Account, there remain issues relating to the substantiation of the debt balance, details of which are provided below.
- 29 The Chief Executive and the Social Fund Task Force has identified the following areas where further improvement action is required.
- 30 They also formed the basis of the next stage of the SIC development when the CGC considered the Jobcentre Plus Controls Dashboard, which incorporated the Social Fund challenges.
- 31 The Significant Control Challenges for 2010/11 are;

## **Regularity**

### *a Document Management*

**Issue:** The business faces a 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 RAD regularity sample request where failure to locate documentation has contributed to the Social Fund Account Qualification.

**Action:** During 2010/11, a number of actions were taken including:

The introduction of scanning facilities for the Social Fund. The phased implementation of the scanning process into Social Fund sites was undertaken during a time of change in Jobcentre Plus. Social Fund delivery was further centralised and during this transitional period a backlog of claims requiring scanning accrued in most offices. The Benefit Centre Directorate responded with robust plans to reduce the levels of outstanding claims at each location, providing additional scanners and increasing available staff resource. This has resulted in documents being scanned in 'real time', with the objective of ensuring improvements in the speed, efficiency and completeness over the retrieval of Social Fund Case Papers.

Despite the progress made to date, a number of case papers could not be sourced, either fully or partially. Management attention continues to be focussed on this issue and a detailed Action Plan has been put in place incorporating designated leads with responsibility for document control at each site and undertaking master classes on procedures and accountabilities.

### *b Quality of decision making*

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

**Action:** The Account qualification covering Sure Start Maternity Grants has been removed this year following improvements in decision-making and document control – the latter attributed to increased centralisation of this work. The Account qualification has, however, been extended to now cover Cold Weather Payments. Errors have been identified where manual payments have to be made, leading to a new qualification for this award type.

Jobcentre Plus continues to focus on improving the standard of decision-making, utilising the Quality Assurance Framework as a primary means to do so. The Framework has provided data that is analysed to identify which elements of the Social Fund are the most challenging in terms of complexity. This enables checks to be targeted and the role of the Quality Assurance Framework checker is to ensure a focus on raising quality.

## **Debt**

There were a number of contributing factors which led to the imposition of a qualification on the Notes to the Social Fund Account in 2009/10. The primary factor was the substantiation of the debt balance, £1.1 billion, held in the accounting systems (namely Programme Accounting Computer System, PACS) to that held in the operational Social Fund Computer System (SFCS).

There were also a number of associated debt issues included in the 2009/10 SIC, details of which are provided below.

#### *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. At the end of 2009/10 the difference between the two amounted to an estimated £36m (3.2% of the total 2009/10 debt stock, Loans and Funeral Payments, of £1,109m).

**Action:** Three key stages were identified to interrogate these systems and to perform a managed data match:

- **Assurance:** To ensure the ability to interrogate SFCS accurately and completely a new data scan was designed, built and implemented. This was delivered between August and December 2010 and the NAO assurance work has confirmed that the data scan is extracting data as designed.
- **Process:** The methodology for the data match exercise was designed in consultation with DWP Accounting Shared Services and scrutinised by NAO. The actual data management processes have similarly been developed and reconciliations have been performed.
- **Results:** Top level results for March 2011 indicate that the value of the differences between the two systems is approximately £20m.

Analysis of the results indicates large volumes of unmatched items between SFCS and PACS. This issue remains a significant control challenge as the detailed investigation and resolution work is not yet complete and the qualified opinion remains in place in 2010/11. A timeline is in place to address the outstanding issues in time for the 2011/12 Interim Account stage.

#### *b Unrecorded Clerical Cases*

**Issue:** Processes for the recording of Clerical Cases onto SFCS have not been operating effectively which has resulted in a number of outstanding cases not being recorded on the system. The absence of case details from SFCS impacts on the integrity of the overall Social Fund debt balance, the completeness of individual customer debt and the debt reconciliation process.

**Action:** A concerted effort by staff within the Benefit Centre Directorate has reduced the number of outstanding cases from in excess of 100,000 to a two day Head of Work of around 3,000 cases equating to £230,000 (0.02%) of the debt stock. Jobcentre Plus are currently reviewing the reasons for the creation of Clerical Cases with a view to preventing the vast majority of them being generated in the first instance. This will reduce the level of associated risk.

#### *c Passported Error*

**Issue:** During the audit of the 2009/10 Social Fund Account, it was identified that there were inadequate procedures for the recording of overpayments from recipients who no longer qualify for a Social Fund grant, as a result of no longer being eligible for the underlying qualifying benefits.

**Action:** For the qualifying benefits administered by Jobcentre Plus, guidance has been in place throughout the year to allow for the identification and referral of these potential debts. To complement this guidance, a pilot has been running to test a revised process for the referral of cases to Debt Management. Additionally DWP Finance colleagues have been sampling the relevant Social Fund grants (Sure Start Maternity Grants, Cold Weather Payments and Community Care Grants), to provide a quantifiable estimate of any omitted debt.

Processes are being implemented in both Jobcentre Plus and the Pensions, Disability and Carers Service to ensure any such overpayments are now referred for recovery. Further consideration is being given to the viability and value for money of building an appropriate routine process with Her Majesty's Revenue and Customs (HMRC) where Tax Credits are the qualifying benefit.

*d Debt Relief Orders*

**Issue:** Debt Relief Orders (DROs), a new form of personal insolvency, were introduced in April 2009. The orders remain for 12 months after which all named debts are then written off. During this period no repayments of those debts can be sought. As with bankruptcies, the Department continued to make deductions from customers' benefit, as there was a presumption that social security debts were excluded from the ruling over repayments.

**Action:** There are ongoing legal proceedings regarding the legality of this approach. In December 2010, The Court of Appeal ruled that all deductions from customers with a DRO were to cease. The Department appealed particular aspects of this judgement but the ruling was upheld in March 2011.

Jobcentre Plus have made every effort to comply with the various legal stages and also to identify every Social Fund customer with a DRO. All deductions from known DRO cases have now ceased. The Department is now appealing to the Supreme Court over the original decision and, should the appeal be lost, refunds to customers will have to be made where any deductions occurred.

The control challenge lies in the ability to identify robustly customers in receipt of a DRO and then to identify appropriate debts contained therein. Data share arrangements with the Insolvency Service have been put in place to ensure the Department and Jobcentre Plus have a complete record of such customers. A process for refunding has been drawn up and will be put in place should the Supreme Court rule against the Department.

32 During the course of 2010/11 a key financial challenge has emerged;

**Financial position**

With high demand for Social Fund loans, particularly Crisis Loans, and the absence of any additional investment by HMT from 2011-12 onwards, the Fund could face a significant deficit in the next few years unless remedial action is taken. To that end, a number of measures will be introduced from April 2011 designed to control demand on the Fund:

- Crisis Loans for certain items will no longer be paid. There will be some residual support through the Community Care Grant scheme for people following a verified disaster.
- The daily rate paid for living expenses will be reduced from 75% to 60% 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 will be implemented.

These changes, combined with a strengthened emphasis on maximising loan recoveries into the Fund, are designed to reduce the immediate funding pressures on the Social Fund and also to put it on a more sustainable footing ahead of the reforms to the Social Fund announced in the Welfare Reform Paper.

*Darra Singh*  
Accounting Officer

22 June 2011

# 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 2011 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 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.

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

## Qualified opinion on Regularity

In the year to 31 March 2011, the Social Fund paid £4,188 million in discretionary awards (which comprise Budgeting Loans, Crisis Loans and Community Care Grants) and regulated awards (which comprise Funeral Expense Payments, Sure Start Maternity Grants, Cold Weather Payments and Winter Fuel Payments). For Budgeting Loans, Crisis Loans, Community Care Grants, Funeral Expense Payments and Cold Weather Payments an estimated £98.3 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.

In my opinion:

- except for an estimated £98.3 million of discretionary awards, Funeral Expense Payments and Cold Weather Payments 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.
- A list of the irregularities found during the audit of Social Fund award payments can be found in my report.

## Qualified opinion on financial statements arising from limitation in audit scope

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 existence and valuation of £1,243 million of debt reported in the notes to the financial statements.

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

- the financial statements properly present the receipts and payments for the year ended 31 March 2011 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.

## 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 or returns; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

## Report

My report on pages 13 to 18 provides further detail of my qualified opinions on the financial statements.

*Amyas C E Morse*  
Comptroller and Auditor General

4 July 2011

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Victoria  
London SW1W 9SP

## Report by the Comptroller and Auditor General

- 1 The Department for Work and Pensions (the Department) is responsible for controlling and managing the Social Fund (the Fund) under the Social Security Administration Act 1992. This work is undertaken on behalf of the Department by Jobcentre Plus (JCP). The Social Fund White Paper Account records the payments made to customers for Budgeting Loans, Crisis Loans, Community Care Grants, Sure Start Maternity Grants and Funeral Expenses Payments in accordance with Directions issued by the Secretary of State for Work and Pensions under the Social Security Contributions and Benefits Act 1992. The same Act also provides for customers to receive Cold Weather Payments and Winter Fuel Payments in prescribed conditions. In 2010-11 payments made to customers totalled £4.19 billion. The Account also includes receipts of £4.22 billion, including £548 million from the repayment of Social Fund Loans.
- 2 The Welfare Reform Bill currently before Parliament proposes a number of changes to the Social Fund. These include proposals to abolish the discretionary part of the Social Fund, introduce payments on account to replace Crisis Loan alignment payments and replace Community Care Grants and Crisis Loans with new local services. While these are potentially significant changes to the future shape of the Social Fund, in the interim JCP needs to address the issues set out in this report.
- 3 The audit opinion on the Social Fund White Paper Account has been qualified since 2003-04 because of material levels of error in Budgeting Loans, Crisis Loans and Community Care Grants, which are collectively known as discretionary awards. For the previous two years, Funeral Expenses Payments have been subject to a qualification, and in 2009-10 I also qualified my audit opinion in respect of Sure Start Maternity Grants.
- 4 On the 2009-10 accounts, for the first time, I also limited the scope of my audit opinion on the debt notes within the account, due to the inadequacy of evidence to properly support these balances.

### Audit Opinion

- 5 In 2010-11 I have again found it necessary to qualify my audit opinion due to material irregularities in discretionary awards and Funeral Expenses Payments (the **regularity qualification**). In addition, I have also qualified my opinion on Cold Weather Payments for the first time this year due to the material level of error I have identified in these payments. I have, however, removed the qualification on Sure Start Maternity Grants due to the considerable reduction in the level of error that we identified in the 2010-11 payments.
- 6 I recognise that JCP has made progress in tackling a number of the long standing systemic issues I referred to in my report on the 2009-10 Social Fund White Paper Account, but JCP still faces challenges with the debt balance. As a result, I have again limited the scope of my audit opinion on the debt note within the accounts (the **debt qualification**).

### Regularity Qualification

- 7 The Social Fund administers five main loan and grant types in addition to Cold Weather and Winter Fuel Payments. These loans and grants are split into two distinct categories:
  - a) Discretionary Awards – Payments are made from a cash-limited budget and Social Fund staff must have regard to the available budget when deciding whether to make a payment and how much to award. These comprise Budgeting Loans, Crisis Loans and Community Care Grants.
  - b) Regulated Awards – Payments are made by right, if a person meets the conditions. These comprise Funeral Expenses Payments, Sure Start Maternity Grants, Cold Weather Payments and Winter Fuel Payments.
- 8 In 2010-11 JCP processed approximately 5.6 million applications for discretionary awards (2009-10: 6 million) along with 420,000 applications for Funeral Expenses Payments and Sure Start Maternity Grants (2009-10: 440,000). This resulted in some 4.0 million payments of discretionary awards (2009-10: 4.2 million) and 295,000 Funeral Expenses Payments and Sure Start Maternity Grant payments (2009-10: 295,000). An additional 17.2 million awards for Cold Weather Payments (2009-10: 11.9 million) and 12.7 million awards for Winter Fuel Payments (2009-10: 12.6 million) were made, for which no formal applications are made.



## Overall Estimated Level of Error within the Social Fund

- 9 Each year, the NAO test a sample of awards from each payment stream within the Fund to determine whether payments were accurate and made in accordance with the eligibility conditions set by Parliament (i.e. regular). In 2010-11 my testing identified an estimated £114.3m of payments, which had not been applied to the purposes intended by Parliament; some 2.7 per cent of total payments (2009-10: £106.4m, 2.6%).
- 10 This estimate of the most likely error (MLE) is based on a sample of award payments and as with all such calculations is subject to a degree of statistical uncertainty. This 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. I apply a 95 per cent confidence interval and estimate that, whilst the best estimate of overpayments is £114.3m, the true levels of overpayment could lie in the range from £50.2 million to £178.4 million.
- 11 Within these figures, I have estimated that the error resulting from incorrect Winter Fuel Payments is £16 million, some 0.6 per cent of related expenditure. Whilst this level of error is significant, I have not deemed it sufficiently material to include in my regularity qualification. In addition, in 2010-11 I found no errors in my testing of Sure Start Maternity Grants (2009-10: £11.7 million, some 8.5 per cent of related benefit expenditure) and I have therefore removed this from my regularity qualification for 2010-11.
- 12 My testing has also identified an estimated £21.5 million of error (some 5.0 per cent of related expenditure) in Cold Weather Payments in 2010-11 (2009-10: nil). I consider this level of error identified to be material, and as a result I have found it necessary to include Cold Weather Payments within my regularity qualification for the first time this year.

## Error Categorisation

- 13 As in previous years, I have analysed the most likely error into four main categories, as set out in table 1 below, in order to provide an understanding of the main causes of error within the Fund.

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	12.90	12.50	6.62	-	32.01	7.11	450.16
Crisis Loans	6.59	17.65	1.36	12.06	37.66	16.41	229.51
Community Care Grants	3.10	2.48	-	0.15	5.73	4.06	141.17
Sure Start Maternity Grants	-	-	-	-	-	-	130.90
Funeral Payments	0.23	-	1.11	-	1.35	3.00	44.94
Cold Weather Payments	n/a	n/a	21.54	n/a	21.54	4.95	435.41
<b>MLE of qualified awards</b>	<b>22.83</b>	<b>32.62</b>	<b>30.63</b>	<b>12.21</b>	<b>98.29</b>	<b>6.86</b>	<b>1,432.09</b>
Winter Fuel Payments (unqualified)	n/a	n/a	16.03	n/a	16.03	0.58	2,756.24
<b>Overall most likely error</b>	<b>22.83</b>	<b>32.62</b>	<b>46.66</b>	<b>12.21</b>	<b>114.32</b>	<b>2.73</b>	<b>4,188.32</b>

Table 1: Extrapolation of 2010-11 error results

## Documentation Management

14 Two of the four error categories used by the NAO:

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

arise due to JCP's inability to provide the NAO with the prime records, such as an application form or a decision sheet, to demonstrate that the award was made in accordance with the Secretary of State Directions or Regulations.

15 Overall, the most likely error arising from missing documentation was £55.45 million (2009-10: £50.09 million). JCP believes the continued high instance of error is due to ongoing reorganisation of its process centre network, with the result that large amounts of paperwork was moved between JCP offices during the year. This has added complexity to the tracking of documents, and led to problems in locating the specific documents that we requested.

16 In an attempt to address problems with tracking, storing and managing this data, JCP instigated a scanning project in 2010-11, with the aim of electronically capturing and holding all case documentation instead of relying on traditional bulk storage facilities, which are both prone to error and expensive to administer. While this did not result in a significant improvement in the instances of missing case papers or missing or incomplete loan agreements and other documents, JCP attributes this to being the first year of introduction, and expects to see improvements in 2011-12.

17 During the year JCP has completed the centralisation of Sure Start Maternity Grant payments, which has led to the consolidation of expertise in this area and improved the consistency of awards. The success of this approach can be seen in that we did not identify any errors in this payment stream for 2010-11, compared to a most likely error of £11.7 million in 2009-10.

## Compliance with Secretary of State Directions and Regulations

18 The Social Fund is governed by Secretary of State Directions and Regulations, which set out eligibility requirements and circumstances in which JCP's Decision Makers may exercise discretion over payments from the Fund.

19 Discretionary awards are 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.

20 Regulated awards are governed by The Social Fund Maternity and Funeral Expenses (General) Regulations 2005, The Social Fund Winter Fuel Payment Regulations 1998 and Social Fund Cold Weather Payments (General) Regulations 1988, and any subsequent amendments.

21 The remaining two of the four error categories used by the NAO:

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

arise when JCP has either failed to comply with, or where the quality of the documentation supporting the decision was insufficient to demonstrate compliance with, the Directions or Regulations.

22 Our assessment is that the most likely error arising from actual or suspected non-compliance with Secretary of State Directions and Regulations in 2010-11 was £58.87 million (2009-10: £56.37 million). With the exception of the errors found for the first time in Winter Fuel and Cold Weather Payments (£37.57m), there has been an improvement in the quality of decisions and documentation around the other award types, which JCP believes is due to the implementation of the Quality Assurance Framework (QAF).

23 As I have reported previously, JCP has implemented the QAF as a way of improving the quality and accuracy of decisions made. The QAF has been in place nationally for over two years now and the results from both

JCP's own management checks and my testing show an improving trend in most discretionary and regulated award types.

- 24 Winter Fuel and Cold Weather Payments are mostly system generated and automated payments. The errors we identified in these payment streams arose predominantly as a result of exceptions within the automated payment route which required some manual input. These expenditure streams fall outside of the QAF process.

### Actions to Improve the Regularity Issues

- 25 During 2010-11 JCP has continued to work to address the concerns I have previously raised on the regularity of expenditure, and has put in place a detailed action plan to address the document control issues at processing sites. The embedding and refinement of the QAF is still ongoing and JCP is looking to strengthen the manual exception process around Winter Fuel and Cold Weather Payments to reduce the errors in these awards. I recognise that JCP has been implementing these changes at a time of record award volumes as a result of the impacts of the economic slowdown and the extremely cold winter in 2010-11.

### Regularity Conclusion

- 26 I acknowledge that the Social Fund exists to provide financial assistance to some of the most vulnerable in society and the judgements associated with making discretionary awards are to some degree subjective. Nevertheless, the material levels of error within the payments tested by my staff means that I have qualified my audit opinion on the regularity of payments. For Budgeting Loans, Crisis Loans, Community Care Grants, Funeral Expense Payments and Cold Weather Payments an estimated £98.3 million of payments have not been applied to the purposes intended by Parliament and do not conform to the authorities which govern them.

### Debt Qualification

- 27 There are four main and numerous sub IT systems which JCP uses to process and record Social Fund awards and payments. The four main systems are:
- Winter Fuel Payment System (WFPS) – This is used to process Winter Fuel Payments;
  - Social Fund Computer System (SFCS) – This is used to process and record Social Fund loans and grants. SFCS contains customer level data on outstanding debt;
  - Social Fund Accounting System (SFAS) – All discretionary cases should be recorded on SFCS as part of the decision making process. However, due to IT constraints this is not always possible and a supporting system, SFAS (which is a simple database), is used to record cases which cannot be immediately entered onto SFCS; and
  - Programme Accounting Computer System (PACS) – This is the accounting system used to record all Social Fund financial information.
- 28 JCP uses PACS to derive the figures which appear in the SFWPA. However, due to IT limitations, PACS is only able to provide a gross total for the outstanding debt balance. It is unable to provide a customer level breakdown and JCP relies on two of the other systems, SFCS and the supporting SFAS, to break down the debt into individual customer balances.
- 29 In 2009-10 I reported the problems that JCP was experiencing in reconciling the debt balance recorded on PACS to the individual customer debt balances recorded on SFCS and SFAS. In an attempt to resolve these issues, JCP set up the Social Fund Task Force (the Task Force) to try to address my concerns. An update on progress made during 2010-11 is given below.

## Debt Reconciliation

- 30 In 2009-10, my audit work concluded there was an unexplained estimated difference between PACS and SFCS plus SFAS of some £36 million. Of this, an estimated £11m was due to some 130,000 'clerical cases', which remained unprocessed on either SFCS or SFAS at the year end, but were still correctly accounted for within PACS.
- 31 During the year the Task Force put in place processes to remove the debt differences, as well as taking action to clear the backlog of unprocessed 'clerical cases' and strengthening controls to ensure such backlogs do not recur.
- 32 By 31 March 2011, JCP had successfully cleared the backlog of clerical cases, and work had been done to review the root causes of the creation of such clerical debt. This concluded with a year end exercise to record and quantify all remaining clerical cases at the year-end. As such we consider that JCP has carried out the work necessary in 2010-11 to substantially resolve the clerical debt problem.
- 33 Nevertheless, at the year end there was still an unexplained difference of some £20.3 million between PACS and SFCS plus SFAS. The Task Force has set up a process for investigating, understanding and resolving the difference. However, as a result of the sheer number of records involved, and the complexities of how data is held in the three systems, this work has not progressed as far as JCP would have hoped, with approximately one million non-matched items still to be resolved at the end of May 2011.
- 34 As a result, the approximately £20.3 million unexplained difference remains a significant limitation in JCP's ability to provide assurance over the debt balance disclosed in the financial statements.

## SFCS Scan

- 35 In order to accurately report debt balances at the year end, JCP needs to generate reports from SFCS. This is an old computer system designed and implemented in the late 1980's. Its reporting functionality and the ways of extracting information, such as a breakdown of the year end debt balance, is limited. To extract this information, JCP relies on a series of scans of the IT system to interrogate the data files and report this information in an accessible format.
- 36 In 2009-10 JCP was unable to prove the completeness and accuracy of the SFCS year end debt balances scan. To rectify this issue, JCP, along with its IT partners, worked on re-specifying the scan parameters to ensure the completeness and accuracy of the debt reports, as well as improving their usability as management information. My team has reviewed the new coding and controls in place to ensure the completeness and accuracy of the scan data and assessed them as effective.

## Passported Error

- 37 Community Care Grants, Sure Start Maternity Grants and Cold Weather Payments are awarded on the basis of the applicant already being in receipt of a qualifying benefit (e.g. 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 recoverable in line with the relevant legislation.
- 38 My team has identified that JCP does not yet have fully robust processes for the identification and recovery of overpayments arising from "passported error", which results in an understatement of the Social Fund debt balance. JCP has released internal guidance to raise awareness of the issue in the organisation, and has started to implement processes to identify and account for these cases appropriately.
- 39 JCP estimates that the level of unrecorded overpayments in 2010-11 as a result of passported error lies between £3 million and £14 million, which I consider to be a significant omission in the completeness of the year end Social Fund debt figure.

## Debt Conclusion

- 40 From the work that my team has conducted over the Social Fund debt balance, I have been unable to obtain sufficient, appropriate audit evidence over the breakdown of this figure to complete my audit on the debt notes 5 – 8 of the account.
- 41 Auditing Standards require me to make a judgement on the impact this lack of audit evidence has on the accounts and I have concluded that in the absence of sufficient appropriate evidence on the make up of the customer debt balance I am unable to determine whether any adjustments to the amounts disclosed are necessary. Accordingly, I have limited the scope of my audit opinion in this regard.
- 42 Auditing Standards also require me to report if adequate accounting records have not been kept. For the reasons set out above, I have concluded that I need to bring to your attention that certain accounting records are not adequate to support the transactions comprising the debt balance.

## Actions to Address the Debt Issues

- 43 JCP intends to continue refining the debt reconciliation process that it started developing in 2010-11 and further analysing the data held on SFCS and SFAS. It is implementing processes across the Agency, the wider Department and other Government Departments to accurately share information to ensure “passported error” cases are correctly identified and accounted for.

## Summary and conclusions

- 44 My audit of the Social Fund White Paper Account has established that JCP has made good progress in a number of areas where I have previously expressed concern, but it still faces a number of challenges. This has been a transitional year for JCP in managing the Social Fund during a period of increasing demand for its services. The plans and processes that management implemented in 2010-11 provide a solid foundation on which JCP should build to fully resolve all my concerns. I will continue to monitor progress and will provide an update in my Report on the 2011-12 Account.

*Amyas C E Morse*  
Comptroller and Auditor General

4 July 2011

National Audit Office  
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## Receipts and Payments Account for the year ended 31 March 2011

	2010/11 £'000	2009/10 £'000
<b>Receipts</b>		
Receipts from the Secretary of State		
RfR 3 – Discretionary	<b>272,000</b>	
RfR 3 – Regulated	<b>654,000</b>	
RfR 3 – Winter Fuel Payments (Regulated)	<b>2,746,137</b>	
	<b>3,672,137</b>	3,513,999
Repayments of Budgeting Loans	<b>422,118</b>	465,779
Repayments of Crisis Loans	<b>125,431</b>	120,182
Repayments of Funeral Expenses Payments	<b>341</b>	326
Refund of Social Fund Overpayments Discretionary	<b>44</b>	14
Refund of Social Fund Overpayments Regulated	<b>994</b>	137
	<b>4,221,065</b>	4,100,437
<i>Less</i>		
<b>Payments</b>		
<i>Discretionary</i>		
Budgeting Loans	<b>450,159</b>	482,798
Community Care Grants	<b>141,170</b>	140,658
Crisis Loans	<b>229,506</b>	232,507
<i>Regulated</i>		
Winter Fuel Payments	<b>2,756,235</b>	2,738,825
Funeral Expenses	<b>44,944</b>	47,887
Sure Start Maternity Grants	<b>130,899</b>	138,814
Cold Weather Payments	<b>435,410</b>	298,261
	<b>4,188,323</b>	4,079,750
Excess of payments over receipts		
Excess of receipts over payments	<b>32,742</b>	20,687

## Statement of Balances

	2010/11 £'000	2009/10 £'000
Opening Balance	<b>36,859</b>	16,172
Excess of payments over receipts		
Excess of receipts over payments	<b>32,742</b>	20,687
Closing Balance	<b>69,601</b>	36,859

*The Notes on pages 20 to 23 form part of this Account.*

Darra Singh  
Accounting Officer

22 June 2011

# 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 2009-10 are given for comparison. They are taken from the Account for that year, (House of Commons Paper No.HC0532 of 2009/10).

## 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 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 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 has increased to £72.7 million in 2010/11. This is primarily due to ensuring that sufficient funds were in place to meet the forecast Cold Weather Payments for February and March, following the extremely high expenditure in December and January, this funding was not spent as the actual Cold Weather was not as anticipated.

## 4 Cold Weather Payments

For 2010/11 the exceptionally cold winter resulted in over 17 million Cold Weather Payments being made, compared with an average over the last ten years of fewer than 4 million per year. The combination of the continued increase in the amount paid, from £8.50 to £25.00, and the range of payment triggers being experienced across the whole country, including major city conurbations with high populations of eligible customers, resulted in the total payment of £435 million. Additional funds were drawn down into the Social Fund at the Spring Supplementary Estimate stage to cover these payments.

## 5 Statement of Loans

	Budgeting Loans £'000	Crisis Loans £'000	Total £'000
Amount outstanding at 1 April 2010	662,836	437,488	1,100,324
Amount loaned	450,159	229,506	679,665
Transferred to overpayments	(38)	(13)	(51)
Amount recovered	(422,118)	(125,431)	(547,549)
Adjustments and amounts written off	(796)	(537)	(1,333)
Amount outstanding at 31 March 2011	<u>690,043</u>	<u>541,013</u>	<u>1,231,056</u>

The amount for loans outstanding at 31 March 2011 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.

As referred to in the Statement on Internal Control there are a number of issues associated with Social Fund debts held within an individual's Debt Relief Order, (DRO). These issues have the potential to impact both the Debt and Repayments figures within the Account:

- (i) The total debt figure includes an estimated £3.1 million that is held within customer DROs. This amount will be written off during the course of 2011/12 as the DRO reaches maturity at 12 months.
- (ii) There is also an estimated £1.4 million of debt held within DROs that have matured during 2010/11. No recovery measures are being taken on these debts, but the amounts have not been written off in the financial systems due to system constraints.
- (iii) The position surrounding the legality of making recoveries from customer loans named within a DRO remains unresolved at the time of publication. Following a ruling by the Court of Appeal in December 2010, Jobcentre Plus has ceased recoveries from all loans known to be subject to a DRO. The DWP has been granted leave to appeal to the Supreme Court over the whole issue of recovery from customers holding a DRO. If the Department is ultimately successful then recoveries will resume. Should the Department lose then all recoveries that have been made since April 2009 will have to be refunded. The potential loss to the Fund in these circumstances is estimated at £2.5 million.

## 6 Age of Loans Analysis

Between April 1988, when the Social Fund loans scheme was introduced, and March 2011, loans of some £9,896 million have been paid. Over this period, £8,626 million of these loans have been recovered and £39 million written off, leaving a balance of £1,231 million outstanding at 31 March 2011. 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	Crisis Loans £'000	Total £'000
	Loans £'000		
5 years and over	88,210	59,348	147,558
Between 1 year and 5 years	304,793	286,781	591,574
Less than 1 year	297,040	194,884	491,924
	<u>690,043</u>	<u>541,013</u>	<u>1,231,056</u>

## 7 Statement of Funeral Expenses Payments Outstanding

	£'000
Amount outstanding at 1 April 2010	8,693
Payments made	44,944
Transferred to overpayments	(2)
Amount recovered	(341)
Adjustments and amounts deemed irrecoverable	(41,723)
Amount outstanding at 31 March 2011	<u>11,571</u>



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	237
Between 1 year and 5 years	3,503
Less than 1 year	7,831
	<u>11,571</u>

## 9 Statement of Overpayments

	Regulated £'000	Discretionary £'000	Total £'000
Amount outstanding at 1 April 2010	541	164	705
New overpayments made	2,213	67	2,280
Amount recovered	(994)	(44)	(1,038)
Adjustments and amounts written off	(1,119)	(24)	(1,143)
Amount outstanding at 31 March 2011	<u>641</u>	<u>163</u>	<u>804</u>

The amount for overpayments outstanding at 31 March 2011 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.

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 Resource Account.

Winter Fuel Payments represent the largest of these overpayments at £589k (73%), the remaining £217k is spread across the other award types with Budgeting Loans being the next largest at £88k (11%).

## 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 2010/11 is £3m to £14m.

**11 Statement of Losses**

	£'000
Recoverable loans impracticable to pursue (5,652 cases)	1,333
Claims for recoverable Funeral Expenses payments abandoned due to insufficient estate (20,092 cases)	25,424
Claims for recoverable Funeral Expenses payments abandoned because they are impossible/unreasonable to pursue (13,860 cases)	16,299
Overpayments written off during the year (6,080)	1,143
	<u>44,199</u>

**12 Fraud and Error**

Methodology to estimate the Monetary Value of Error (MVE) in Social Fund payments was introduced from 1st April 2008. This estimation continued throughout 2010/11 and is now a firmly embedded business practice in line with other Jobcentre Plus benefits. The results are published within the national statistics on MVE.

**13 Statement of Assets and Liabilities**

	Liabilities £'000	Assets £'000
Government Banking Service		72,668
Social Security Benefits and other Payments Vote	6,565	
Santander commercial bank		3,095
Administration and Miscellaneous Services Vote		178
National Insurance Fund		241
Other Government Creditors / Debtors (Net)	16	
Balance of Social Fund	69,601	
	<u>76,182</u>	<u>76,182</u>

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

The main bank account for the Social Fund is the Government Banking Service (formerly known as HM Paymaster General account), 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.

*Darra Singh*  
Accounting Officer

22 June 2011

## 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

	£'000	20XX-XX £'000	20XX-XX £'000
<b>Receipts</b>			
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>			
<b>Payments</b>			
<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		

*The Notes on pages x to x form part of this Account.*

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