

Helping those in financial hardship: the running of the Social Fund

LONDON: The Stationery Office
£10.75

Ordered by the
House of Commons
to be printed on 10 January 2005

EXECUTIVE SUMMARY



1 Around one-fifth of people in the United Kingdom live in low income households and over a quarter of households have no savings.¹ The Social Fund (the Fund) provides loans and grants to those in Great Britain² who cannot meet important or emergency expenses out of regular income. It provides a safety net for some of the most vulnerable in society to enable them, for example, to afford household appliances or buy food if they have their benefit money stolen. There are seven types of award (**Figure 1**), of which this report covers five (**Figure 2**). Discretionary awards – Budgeting Loans, Crisis Loans and Community Care Grants – are paid from a cash-limited budget, with applicants deemed eligible paid subject to other, discretionary conditions. Regulated awards – Funeral Payments, Sure Start Maternity Grants, Cold Weather Payments and Winter Fuel Payments – are paid to all entitled claimants.³

2 In 2003-04, around four million applications to the Social Fund resulted in almost three million grants, loans and other payments. The total value of payments was £854 million and loan recoveries were £529 million. Overall, around 29 per cent of applications were turned down, although the proportion of successful applications has increased in recent years. Loans are the core part of the Fund, accounting for over 80 per cent of awards made and two-thirds of gross expenditure. **Figure 3** shows recent trends in gross expenditure.

3 The Social Fund was set up in 1988 under the Social Security Act 1986. The system of repayable loans differentiates the Social Fund from its predecessor schemes, which only paid out non-repayable grants. Furthermore, the Social Fund was the first scheme to include a cash-limited budget. There have been changes to the rules covering particular types of award, most notably changes to the Budgeting Loans rules in 1999.⁴ However, the structure of the scheme has remained largely unchanged since its introduction.

4 The Social Fund is delivered by Jobcentre Plus, an executive agency of the Department for Work and Pensions (the Department). Each of the 90 Jobcentre Plus districts throughout Great Britain has one or more offices which administer Social Fund applications. Districts have different working arrangements, with varying degrees of centralisation and specialisation across the types of award. In 2003-04, around 3,400 staff worked on the Fund at an estimated cost of £70 million.

1 There are seven types of Social Fund award



Budgeting Loans

1.7 million applications and 1.3 million payments in 2003-04. Total expenditure of £484 million.



Crisis Loans

1.4 million applications and 1.1 million payments in 2003-04. Total expenditure of £85 million.



Community Care Grants

589,000 applications and 256,000 payments in 2003-04. Total expenditure of £118 million.



Funeral Payments

73,000 applications and 46,000 payments in 2003-04. Total expenditure of £47 million.



Sure Start Maternity Grants

317,000 applications and 238,000 payments in 2003-04. Total expenditure of £120 million.



Cold Weather Payments

418,000 payments in 2003-04. Total expenditure of £3.5 million.



Winter Fuel Payments

Paid automatically to 11 million people in 2003-04. Total expenditure of £1.9 billion.

Source: National Audit Office

NOTE

This report does not cover Winter Fuel Payments and Cold Weather Payments, which are normally paid automatically to those entitled to them.

The number of discretionary awards made after review is not included in payment numbers, but total expenditure does include payments made after review.

1 Households Below Average Income 1994-95 to 2002-03 and Family Resources Survey 2002-03, both Department for Work and Pensions, 2004.

2 There is a separate scheme in Northern Ireland.

3 This study does not cover Winter Fuel Payments and Cold Weather Payments, which are normally paid automatically to those entitled to them. Unless otherwise stated no data in this report includes these awards.

4 Much local discretion was removed and the maximum award available is based mainly on family composition, length of time on benefit and existing Budgeting Loan debt, rather than the need for a specific item.

2 Details of the Social Fund awards covered in this report

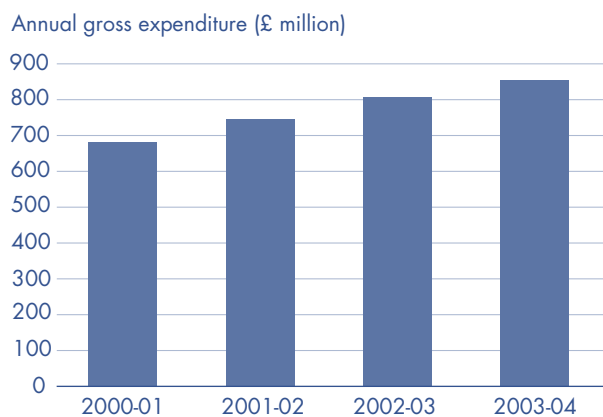
| Award | Average amount | What is the award for? | Who is eligible ? | How is the award made ? | Example |
|----------------------------|----------------|---|---|--|--|
| Budgeting Loan | £384 | To help pay for furniture, household goods, clothes, travel costs, advance rent, removal costs, items to help find or start work, home improvements, maintenance and security, and some debt repayments. | The applicant must have been receiving Income Support, Jobseekers Allowance (income-based), or Pension Credit, or payments on account of such a benefit, for at least the last 26 weeks. | Interest-free loan (generally repaid, where possible, through at-source benefit deductions). | Mike, who has been on Income Support for a year, applies for a Budgeting Loan to replace his cooker |
| Crisis Loan | £77 | To help meet expenses in an emergency or disaster, to prevent serious risk to the applicant's (or their family's) health and safety. | Most people who require assistance with immediate and short-term needs. The applicant does not have to be receiving any social security benefit or tax credit. | Interest-free loan (generally repaid, where possible, through at-source benefit deductions). | Amina lost her benefit money and has no means to buy food for her family. Her next benefit payment is due in a week. She applies for a Crisis Loan to tide her over. |
| Community Care Grant | £364 | To help applicant move out of institutional or residential care or prevent them going into care; to help families under exceptional pressures; to help care for a prisoner on temporary release; to help people with an unsettled way of life set up home; to help with certain travel costs. | The applicant must receive Income Support, Jobseekers Allowance (income-based), or Pension Credit, or payments on account of such a benefit, or be likely to be receiving one of them within 6 weeks of leaving care. | Grant. | Paul, who on leaving prison moves into an unfurnished council flat, applies for a Community Care Grant to help him buy furniture. |
| Funeral Payment | £1,019 | To help pay for a modest funeral or cremation. | The claimant (or their partner) must receive Income Support, Jobseekers Allowance (income-based), Pension Credit, Housing Benefit, Council Tax Benefit, Working Tax Credit with a disability element or Child Tax Credit (higher rate). | Grant (unless can be repaid from deceased's estate). | Jane's husband died and she cannot afford the local funeral costs. She applies for a Funeral Payment to help her pay the funeral director's bill. |
| Sure Start Maternity Grant | £506 | To help buy things for a new or expected baby. | The claimant (or their partner) must receive Income Support, Jobseekers Allowance (income-based), Pension Credit, Working Tax Credit with a disability element or Child Tax Credit (higher rate). | Grant. | Susan is expecting a baby in a month's time. She applies for a Sure Start Maternity Grant to buy a cot and baby clothes. |

Source: National Audit Office

NOTE

For discretionary awards, average amounts are for payments made at initial decision only.

3 Trends in gross expenditure, 2000-01 to 2003-04



Source: National Audit Office analysis of Social Fund Annual Reports

5 The Committee of Public Accounts examined the Social Fund in 1991. Its recommendations are summarised in Appendix 4. Its key recommendations concerned treating different groups of applicants more consistently. These were addressed by amendments to the Secretary of State’s guidance on prioritisation and the changes to Budgeting Loans rules in 1999 (paragraph 3). This report examines four main issues:

- does the Fund help those with the greatest difficulty in managing their income? (Part 2);
- could the Department do more to improve the quality of decision-making? (Part 3);
- does the Department administer the Social Fund efficiently? (Part 4); and
- does the Department manage Social Fund debt effectively? (Part 5).

Helping those in greatest difficulty

What is working well

6 The Social Fund plays an important role in helping people on the lowest incomes cope with expenses they cannot meet from regular income. Many will have only limited access to affordable credit and mainstream financial services. Social Fund loans are interest-free (in contrast to commercial alternatives) and repayment is automatic in most cases, so beneficiaries avoid penalties for non-payment, although repayment rates are high (in general, up to 15 per cent of a customer’s weekly benefit entitlement).^{5 6}

7 In general, the Social Fund is reaching many people within groups most in need. For example, one-third of families on Income Support receive a Budgeting or Crisis Loan each year - the only interest-free formal loan available. Research shows⁷ certain groups, including lone parent families and disabled people are more likely to live on low incomes, and these groups benefit most from the Fund. Many recipients have longstanding illnesses or caring responsibilities.

What needs further development

8 There is a danger that some potentially eligible customers are not aware of the Fund because of its relatively low profile. For example, pensioners are less likely to use the Fund and take up is low amongst some ethnic minorities. Our survey found that only 47 per cent of people on low incomes are aware of the Social Fund, and many on low incomes are more likely to go to family and friends for help and some seek commercial credit, such as mail order. In addition, Social Fund staff told us that awareness of the Fund among some Jobcentre Plus staff who advise customers is limited, especially amongst those who joined from the former Employment Service, and in many offices staff do not tell potentially eligible customers about it as a matter of course.

5 For the purposes of this report, “weekly benefit entitlement” means the qualifying benefit allowance, plus any qualifying tax credits in payment.

6 In exceptional circumstances this can be increased to 25 per cent. The Department recently announced its intention to reduce the ordinary maximum repayment rate to 12 per cent of weekly benefit payments.

7 Households Below Average Income 2003-04 Department for Work and Pensions, 2004.

9 Poor awareness amongst customers about eligibility and the decision-making process can result in the Department receiving many applications which have no chance of success, which is a poor use of resources. Even when they do know about the Fund, customers are not well informed about the types of award or how much they might receive. The Department does not provide routine or easily accessible information to customers about their debt position, making it harder for them to assess how much more they can borrow from the Fund, yet 54 per cent of Budgeting Loan refusals in 2003-04 (some 230,000) were because of outstanding Social Fund debt.

10 37 per cent of Crisis Loan expenditure is on 'alignment payments', made to cover living expenses before people receive the first payment of benefit or wages. Where this is caused by processing delays, Jobcentre Plus should instead be making interim payments rather than drawing on the limited resources of the Fund.

Making good quality decisions

11 Social Fund decisions involve the examination of a range of evidence, depending on the type of award. Decision-makers must decide whether the customer is eligible, decide (in some cases) the priority of their needs, and whether money is available for that level of priority. Where the customer disputes a decision the application is looked at again, first internally and then, in a small number of cases, externally (**Figure 4**).

What is working well

12 In 2003-04, the Department made decisions on some four million applications for Social Fund assistance. Getting them right first time depends on staff knowledge and experience, as well as obtaining all the relevant evidence. In 2003-04, over 90 per cent of quality-checked Budgeting Loan decisions were correct, and a similar proportion of Sure Start Maternity Grant decisions. For initial decisions on Budgeting Loans and Funeral Payments a large majority of districts met processing clearance targets, although some missed the country targets by a long way.

13 Each district sets guidance about which priorities for Community Care Grants can be met, based on guidance from the Secretary of State. Staff resources are focused on the initial decision-making stage and on giving explanations to customers. Local good practices have been developed and we saw evidence in some districts

of them being shared to ensure wider application and consistency. Examples include rotation of initial decision-making and reviewers to spread understanding of the whole process, and team consideration of complex cases to develop consistency.

What needs further development

14 The quality of decision-making in some types of award remains a concern. Central checks indicate that high numbers of initial decisions in some types of award contain errors:⁸ nearly half in the case of Funeral Payment and Crisis Loan decisions, and 24 per cent of Community Care Grant awards. Despite this, districts may not correct those errors identified by central checking, and the vast majority of decisions are not changed because customers do not contest them, although not all errors change the outcome for the customer. Gathering together all the evidence for decision-making can be difficult in some cases and decision notification letters sent to customers are confusing to many. The Department does not check centrally the quality of sufficient numbers of decisions to identify regional or local variations and trends, and enable valuable feedback to be given to decision-makers.

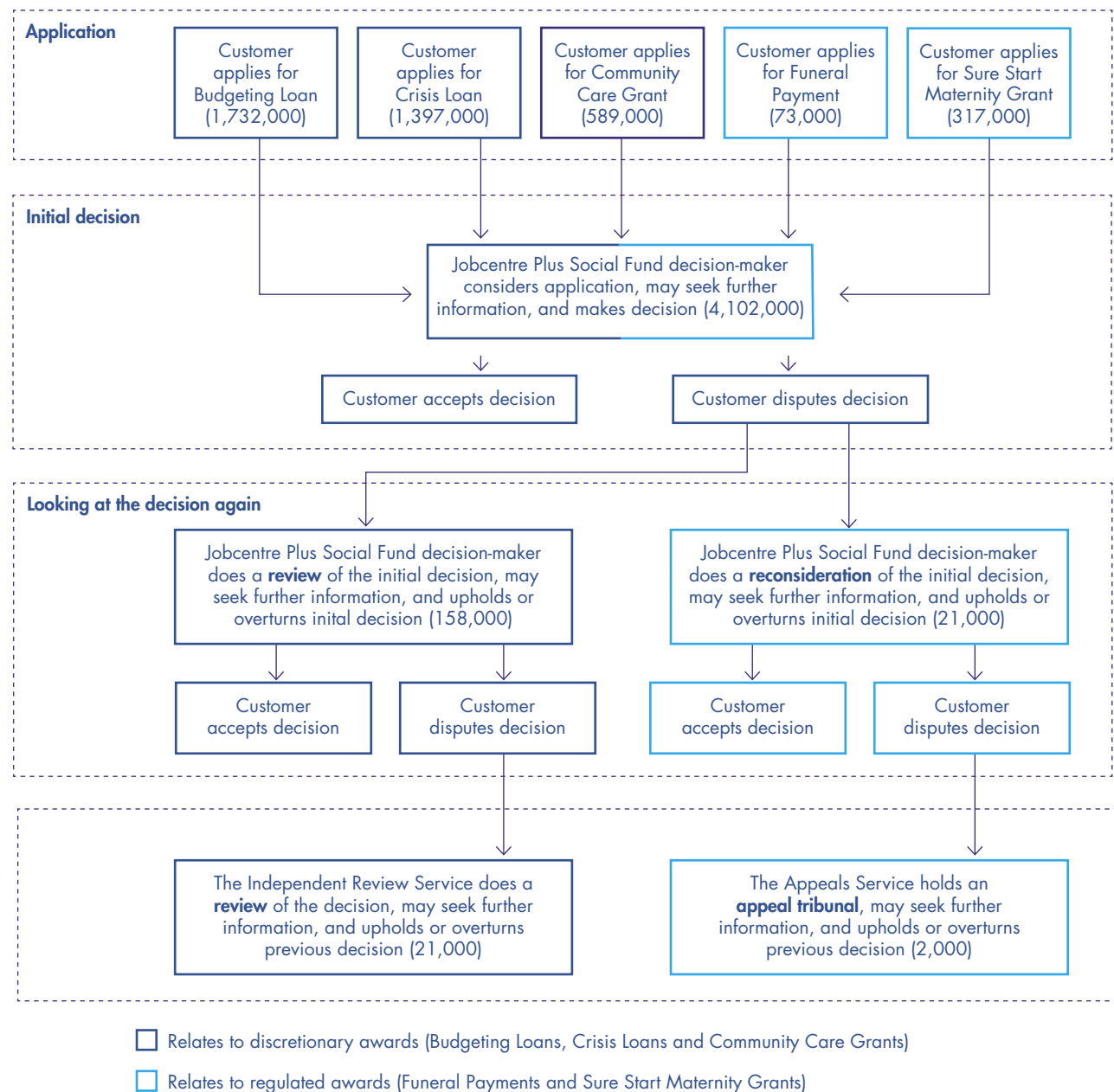
15 Customers are entitled to ask for their decision to be looked at again, initially by an internal decision-maker. However, not all customers are aware of this entitlement, and may not be notified of it when advised of the initial decision if they do not receive a standard letter. Significant numbers of errors occur when decisions are looked at again and many are not dealt with within clearance time targets. If customers are not satisfied they can then ask for an external review by the Independent Review Service for discretionary awards or the Appeals Service for regulated awards. In 2003-04 the Independent Review Service made 21,400 decisions but there are often delays in jobcentres⁹ submitting cases. There remain differences in decision-making arrangements – including training and clearance time targets – between the Department and the Independent Review Service and the latter overturned 56 per cent of Community Care Grant cases received in 2003-04.

16 There are no central arrangements for training Fund staff. The Department makes available some training material, but it is out of date and districts can choose whether or not to use it. Regions and districts have developed localised training, guidance and quality checking procedures. Much of this has been done in isolation and inconsistencies have developed between districts.

⁸ However not all decision-making errors lead to the wrong amount being paid to the customer. Note that in this report the term "error" refers to the results of quality checks by Jobcentre Plus or the Independent Review Service, which consider whether the decision-making process has correctly followed the Secretary of State's guidance, independently of whether or not decisions are overturned.

⁹ Jobcentre is used throughout the report to describe Jobcentre Plus offices, jobcentres and Social Security offices.

4 The decision-making process



Source: National Audit Office

NOTE

2003-04 volumes in brackets.

Administering the Fund efficiently

What is working well

17 In 2003-04, an estimated 3,419 full-time equivalent staff worked on the Fund compared to 3,700 in 2001-02, an eight per cent decrease. Application volumes increased by four per cent over the same period. The Department introduced a new unit costing system for all Jobcentre Plus activities in April 2003. The staff cost per Social Fund application in 2003-04 was significantly lower for the Fund than for other benefits, including Income Support, Jobseekers Allowance and Incapacity Benefit.

18 Those districts split into specialist teams work more efficiently than others, and additional efficiencies have been gained through making contact with the customer on the phone, rather than in writing. Our visits to districts identified a number of efficiency initiatives which have been developed locally, including allowing decision-makers to have 'phone-free days' on rotation to reduce the numbers of interruptions, and awareness raising sessions with jobcentre staff to improve the quality and completeness of application forms. However, there is limited sharing of such good practice between districts. Jobcentre Plus intend to introduce a standard operating model for the Social Fund from April 2005 which will increase the use of the telephone for Crisis Loans, improve planning of staff workload and standardise administrative processes.

What needs further development

19 The Department's data shows significant variations in the staff costs of administering applications across the 90 Jobcentre Plus districts. For example, for Budgeting Loans the highest average cost per application was around five times the lowest (although some of this may reflect inaccuracy within the management information). Working practices differ across the country, and the standard model the Department is developing will incorporate existing best practice.

20 Longer term efficiencies will require wider change within the Department. For instance, greater use of specialist teams would lead to improvements and this approach will become more viable in the context of the Department's plans to centralise processing work in fewer locations than the current 90 districts. Improvements are also needed to the Social Fund computer system, which currently leads to a number of inefficiencies, particularly where cases have to be processed off the system due to lack of space for all

the information. A reduction in the number of cases where Crisis Loans are used to make up for delays in issuing other forms of benefit payments would help, as will the current implementation of a new storage system. The Department has advised that it has firm plans to increase the computer systems capacity in April 2006.

Managing debt effectively

21 Social Fund debt arises when Budgeting Loans and Crisis Loans are awarded. Some £569 million was paid out in loans in 2003-04, with recoveries of £529 million. More than half of those with Fund debt have more than one loan and three per cent have more than ten.

What works well

22 The Department recovers most debt - 97 per cent of Budgeting Loans and 92 per cent of Crisis Loans - because almost all recovery is via automatic deduction to benefit payments. At less than one penny per £1 recovered, this is a very cost-effective method. The Department has exceeded its debt recovery target in each of the last five years so that recoveries have funded most (93 per cent in 2003-04) loans expenditure.

What needs further improvement

23 Districts have not given priority to chasing debt owed by non-benefit recipients, which increased from £90 million in 1999 (20 per cent of the total debt balance) to £180 million in 2004 (30 per cent of the total balance). Resource constraints have restricted the efforts of more than half of districts. In addition, since most districts can meet their annual recovery target by on-benefit recovery alone, there is little incentive to pursue off-benefit debt. The Department plans to improve off-benefit recovery by transferring responsibility for it from districts to a central Debt Management team from 2005-06. This does not include cases where a customer's benefit payments are insufficient to cover agreed repayments.

24 Districts consider that other barriers to off-benefit recovery include limited repayment methods for customers, an inability to recover debt from tax credits and labour-intensive procedures for taking legal action. In addition, debt is not routinely recovered from customers who return to benefits. The Department has introduced new software to address this issue, although central Debt Management data indicates that 40 per cent of districts have not used it.



RECOMMENDATIONS

25 Our recommendations are as follows. The Department should produce an action plan, with appropriate risk management arrangements, for achieving these improvements, including measures for the long, medium and short terms.

To better meet the objectives of the Social Fund

1 The Department should increase awareness of the Fund by improving information for potential customers.

Awareness of the Fund is low so some who may benefit never have it drawn to their attention. Greater awareness amongst customers might be gained by staff automatically raising the Fund with new benefit claimants, or through tailored leaflets for new claimants of relevant benefits or tax credits. This will require greater awareness amongst front-line staff.

2 To help customers better manage their own debt, the Department should make repayment easier and improve information available on debt balances.

The Department should enable all customers not receiving benefit (or with insufficient benefit in payment) to make repayments using direct debit, which would increase the rate of repayment. In the longer term, the Department should also make it possible for customers to check outstanding debt balances through on-line access to information in jobcentres.

To improve standards of decision-making

3 To further focus on getting decisions right first time and correcting them internally as much as possible, the Department should introduce up-to-date, centrally coordinated Social Fund training and improve checking practices to identify errors early.

Training could be based on existing Independent Review Service training and incorporate local good practice examples, to ensure all decision-makers have the same training opportunities. This would allow the Independent Review Service to take a quality assurance role in respect of training. Improvements

in decision-making would also require standardising staffing arrangements and decision-making practices, as well as identifying reasons for overturning decisions. Given that more detailed national quality checks would be very resource-intensive, the Department may wish to consider whether to validate its mandatory local checks, to achieve better performance monitoring and feedback to decision-makers.

4 The Department should reduce geographical variations in Crisis Loan decision-making practices by identifying and ending localised eligibility requirements which impose higher burdens of proof on the customer than are allowed in law.

In some parts of the country, districts have introduced certain additional requirements before awards are made. These requirements are contrary to the law and the Secretary of State's guidance, and the Department should end them through training and guidance.

5 In order to reduce the numbers of decisions overturned at the Independent Review Service the Department should do more to improve the standard of recording of reasons for decisions.

It is essential that the Independent Review Service has all the information about the application and the reason for the decision, including full local budgetary data and decision-makers should only state reasons supportable in law. The Department should prioritise legislative amendments for setting national Budgeting Loan payment limits. To reduce delays in the Service receiving applications for independent reviews, applicants should be able to approach the Independent Review Service directly after they have had a jobcentre review.

On administering the Fund more efficiently

6 The Department should ensure that working practices across all districts are as consistent as possible by introducing a standard process for each type of award for all districts to follow.

The processing of the same types



of award can cost considerably more in some parts of the country than others. The Department has developed a standard operating model to be introduced in 2005, and this should incorporate the findings of our own process mapping work, to reduce unit cost variations between districts.

7 The Department should improve the quality of data it collects on staff costs so that it can accurately assess whether efficiency is improving. This could be achieved by: (i) separating the costs of processing discretionary and regulated awards; (ii) providing guidance to districts to ensure all time spent on Crisis Loan work is included under Social Fund, not jobcentre front-line, staff costs; (iii) including the number of internal reviews as well as initial decisions; and (iv) recording the cost of debt recovery separately.

8 The Department should address more fundamental inefficiencies faced by all districts by considering the costs and benefits of upgrading the IT which supports delivery of the Social Fund and centralising Fund administration. The Department should consider the cost and processing savings associated with upgrading the current computer system or acquiring a new one. The Department plans to centralise processing in fewer locations than the current 90 districts. It should use this opportunity to increase efficiency by ensuring all staff work in specialist teams, and allowing Crisis Loan applications to be taken by phone in all parts of the country.

On better management of Social Fund debt

9 The Department should give greater attention to recovering Social Fund debt to counter the trend for debt balances becoming older (and increasingly hard to collect). We welcome the Department's decision to transfer responsibility for off-benefit recovery from districts

to the central Debt Management team in 2005-06. However, the Department could do more to maximise debt recovery and we recommend they consider: (i) recovering outstanding debt from all customers as soon as they return to benefits; (ii) giving Social Fund staff access to all benefit computer systems to arrange repayment through benefit deductions; (iii) pursuing with Inland Revenue the possibility of recovering Social Fund debt from tax credits; and (iv) ensuring that districts pursue debt owed by customers whose benefit payments are insufficient to cover agreed repayments and making direct debit arrangements available to these customers.

26 We estimate that the Department could achieve annual administrative savings of up to £8.5 million by implementing greater consistency in administration. Some of the recommendations will involve additional costs, which we would expect the Department to evaluate and which are not included in the calculations below. The specific areas with potential for savings are:

- £7.5 million through implementation of the Departments' standard operating model and increased centralisation of the Social Fund at a regional level, so that staff work in specialist teams and Crisis Loans are provided by phone in all parts of the country;¹⁰
- £1 million through upgrades to the Social Fund computer system, including increased capacity to eliminate off-system cases (which the Department plans to introduce in April 2006) and a facility to provide customers with statements of outstanding debt; and
- in addition, based on the Department's own estimate, a further £6 million per year could be recycled back into the Fund if outstanding debt were recovered from all customers as soon as they return to benefits.

¹⁰ This calculation assumes that, for districts with above-median unit costs, the measures outlined will reduce those costs to the median.