Presented pursuant to Act 2000 c20. s.6

Department for Work and Pensions

Resource Accounts 2004–05

LONDON: The Stationery Office
HC 477

26th January 2006
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(For the year ended 31 March 2005)

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Contents

Annual Report

for the year ended 31 March 2005

Scope

This is the Annual Report and Accounts of the Department for Work and Pensions (DWP).

The Department is responsible for delivering the Government's welfare reform agenda, while continuing to provide day-to-day services for all its customers, including employers. Its principal aim is to promote opportunity and independence for all. More information about the Department's aim and objectives can be found in the Operating and Financial Review (see page 6).

Departmental Boundary

The Departmental bodies that fell within the resource accounting boundary during the financial year were:

- DWP Head Office and Corporate and Shared Services
- Jobcentre Plus
- The Pension Service
- Child Support Agency (CSA)
- The Rent Service
- Appeals Service (TAS)
- Disability and Carers Service (DCS)
- Health and Safety Commission and Executive (HSC/E)

The Disability and Carers Service (DCS) was established as a Supply-financed Agency with effect from 1 November 2004. Prior to this date, DCS outturn had been included within DWP Corporate and Shared Services.

Although within the boundary, the HSC and HSE are Crown Non-Departmental Public Bodies administered separately from the Department.

In addition to the above bodies, the following areas of expenditure are also included within the boundary:

Social Fund

The Department is responsible for the Social Fund which is used to make grants and repayable loans to individuals. It makes regulated payments of funeral grants, maternity payments, winter fuel payments and cold weather payments and discretionary payments for budgeting loans, crisis loans and community care grants.

National Insurance Fund

The National Insurance Fund (NIF) is the responsibility of HM Revenue and Customs. However, the contributory benefits funded from the National Insurance Fund are administered by the Department for Work and Pensions on their behalf. These contributory benefit costs, together with their associated costs of administration, are recovered by DWP from the NIF. See also Note 1.2.

European Social Fund

The European Social Fund is one of the European Union structural funds designed to strengthen economic and social cohesion. The Fund helps unemployed and socially excluded people find work or develop their employability. It can also be used to help prevent people in work becoming unemployed.

Other Programme Expenditure

This includes all non-contributory benefit expenditure, together with miscellaneous grants and compensation payments. In addition, subsidies are paid by way of grant to local authorities who, in turn, administer and pay Housing and Council Tax Benefit. All of the above are incorporated within the resource accounting boundary.

Non-Departmental Public Bodies

The Department has responsibility for the following Executive Non-Departmental Public Bodies (NDPBs) who publish separate accounts which are not included within the Departmental boundary:

- Occupational Pensions Regulatory Authority (OPRA);
- Pensions Compensation Board (PCB); and the
- Disability Rights Commission (DRC).

The Secretary of State designates an official within the Department who is responsible for the stewardship of NDPBs. This involves an annual review of the overall strategies, priorities, performance targets and budgets of the NDPBs on the basis of their Business and Corporate Plans.

Remploy Ltd

The funding approved for Jobcentre Plus includes an amount for Remploy Ltd, a private company limited by guarantee, whose net liabilities are guaranteed by the Secretary of State for Work and Pensions. Remploy also has status as a Non-Departmental Public Body and public corporation. Remploy Ltd falls outside of the Departmental boundary. The Jobcentre Plus payment to Remploy Ltd represents grant in aid to help meet the additional costs associated with employing very large numbers of disabled people.

Supply Procedure

Supply Estimates are a request by the Executive to Parliament for funds to meet most expenditure by Government departments and certain related bodies. When approved by the House of Commons, they form the basis of the statutory authority for the appropriation of funds and for the Treasury to make issues from the Consolidated Fund. Statutory authority is provided annually by means of Consolidated Fund Acts and by an Appropriation Act. These arrangements are known as the "Supply Procedure" of the House of Commons.

Certain expenditure may be outside the Supply Procedure and, where Parliament gives statutory authority, will be charged directly to the Consolidated Fund. Alternatively, a statutory fund will be set up to finance the service, as in the case of the National Insurance Fund.

Post Balance Sheet Events

The 2003-04 Resource Account reported that in March 2003, the Lord Chancellor announced that the Government intended to set up a unified Tribunals Service within the Department for Constitutional Affairs (DCA). As a consequence, the Appeals Service will transfer to the DCA with effect from 1 April 2006. Although the main impact will be on the Appeals Service, there will also be changes across the Department, particularly for staff involved in decision-making and appeals processes.

The 2004 Budget requires the Department to make challenging efficiency savings by 2008, by holding the core Departmental Expenditure Limits for 2006-07 and 2007-08 constant in nominal terms at 2005-06 levels. As part of the efficiency savings, the Department plans to reduce its manpower by 40,000 posts gross and 30,000 net after transferring effort into frontline activities.

The Department has in place a comprehensive pay and workforce strategy. The strategy sets out the Department's strategic approach to workforce issues underpinning public sector reform and the delivery of PSA targets. The overall aim of the strategy is to support greater efficiency by developing a high performing, smaller and better motivated workforce.

The Pension Protection Fund (PPF) was established as an Executive NDPB with effect from 6 April 2005. The establishment of PPF is to provide financial security to members of defined benefit and hybrid pension schemes, where employers cannot fulfil their financial obligations towards occupational pension schemes.

The Pensions Regulator (TPR) was also established as an Executive NDPB with effect from 6 April 2005. TPR is the new regulator of work-based pension schemes in the UK. Created under the Pensions Act 2004, it has wide powers and a new proactive and risk-focused approach to regulation.

The Independent Living Fund (ILF) has been classified as an Executive NDPB as part of the Cabinet Office's Public Appointments Units' review of Public Bodies. This classification will become effective from the date of the published report, which was planned to be before the Summer Recess but has been delayed.

In August 2005, the Department reached agreement with Electronic Data Systems (EDS) to provide an improved service for customers and staff, at lower costs. The Department has had a number of contracts with EDS and these have now been realigned into a single contract known as TREDSS (Transforming EDS Services). Modernised services will be added in a phased way over a two year period, with business continuity being a priority.

The Financial Assistance Scheme (FAS) was established on 1 September 2005. The FAS offers help to some people who have lost out on their defined benefit occupational scheme because their scheme was underfunded when it started to wind up and their employer has been unable to make up the shortfall because it is insolvent or no longer exists. The FAS is aimed at pension schemes that began to wind up between 1 January 1997 and 5 April 2005 where the employer experiences an insolvency event and notifies the FAS before 1 March 2006. Schemes that begin winding up after this period may be eligible for help from the PPF.

Departmental reporting cycle

The annual Spring Departmental Report covers expenditure, progress towards the Department's Public Service Agreement (PSA) targets and other activities in support of the Department's objectives, including information relating to the Department's Agencies and associate bodies. The latest Departmental Report (Cm 6539) which was published in June 2005, presented the Department's expenditure plans for 2005-06 to 2007-08, outturn expenditure for 2003-04 and estimated outturn for 2004-05.

The Department also produces an annual Autumn Performance Report, which provides an update on progress against PSA targets since the preceding Spring Departmental Report. The Department's third Autumn Performance Report (Cm 6397) was published in December 2004.

The DWP Main Estimate for 2004-05 was published in April 2004 as part of the Central Government Supply Estimates 2004-05 Main Supply Estimates (HC 466). The Department also applied for Winter and Spring Supplementary Estimates, details of which are available in the Central Government Supply Estimates 2004-05 Winter Supplementary Estimates (HC 1234) and the Central Government Supply Estimates 2004-05 Spring Supplementary Estimates (HC 325).

Operating and Financial Review

Departmental aim and objectives

The Department for Work and Pensions is responsible for delivering the Government's welfare reform agenda through a radical and far-reaching programme of change. Its aim is to **promote opportunity and independence for all.**

In pursuing this aim the Department has the following strategic objectives:

- ensure the best start for all children and end child poverty by 2020;
- promote work as the best form of welfare for people of working age, whilst protecting the position of those in greatest need;
- combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners;
- improve rights and opportunities for disabled people in a fair and inclusive society; and
- modernise welfare delivery so as to improve the accessibility, accuracy and value for money of services to customers, including employers.

The Department's strategic approach is based around these five objectives. The major challenge in the medium to longer term is the ageing society. The Department recognises that it needs to support people to achieve the best possible outcomes for them over the course of longer, more active lives. It will therefore assist and encourage people approaching state pension age to remain in or take up work if they wish to do so.

The Department's Five Year Strategy *Opportunity and security throughout life* (Cm 6447 February 2005), emphasised the importance of supporting its customers across the lifecycle. For most people, work is the best way to achieve economic independence and personal fulfilment. Getting people into work reduces the risk that their children live in poverty. Raising incomes and aspirations, while having a strong work history, is the best way to ensure security in retirement. At the same time the Department must provide decent support for those who cannot work.

The Strategy comprises three key principles for supporting customers across the lifecycle:

- more people in work, choosing to work longer and save more;
- supporting families and children; and
- security and dignity in retirement.

Equality for disabled people supports successful outcomes at each stage in the lifecycle.

The Department's efficiency challenge

In the 2004 Budget it was announced that the core Departmental Expenditure Limits for 2006-07 and 2007-08 would be held constant in nominal terms at 2005-06 levels. To deliver its objectives within these resources, the Department is making substantial efficiency savings. As part of the efficiency savings, the Department intends to reduce its workforce by a total of 40,000 posts with the redeployment of 10,000 posts to frontline roles by April 2008. Within the reducing manpower provision, 4,000 posts will be relocated from London and the South East to other regions, in response to the Lyons Review.

Organisation

In order to deliver its objectives and the efficiency challenge, the Department is transforming the way it operates. An end-to-end approach that brings together policy-making and service delivery is enabling the Department to develop modern, streamlined services that are targeted at the needs of customers.

The Department's organisation is structured around three core roles:

- **Designing and monitoring the strategies to achieve Ministers' policy objectives and PSA targets.** Within the framework of the Department's overall strategy, its strategies and policies are designed in three programmes which reflect the principal customer groups - children, people of working age and pensioners. A further programme reflects the special needs of disabled people, who are found in each of the primary groups, and carers.
- **Delivering services to defined customer groups**, and modernising these services through new systems and processes. The Department's services to customers are provided through its six Executive Agencies.

1. **Jobcentre Plus**—helping people to find work and receive the benefits to which they may be entitled, and offering a service to employers to fill their vacancies quickly and successfully.
2. **The Pensions Service**—delivering services to today's and tomorrow's pensioners.
3. **Child Support Agency**—administering the Child Support Scheme.
4. **Disability and Carers Service**—delivering a range of benefits to disabled people and carers.
5. **Appeals Service**—providing an independent tribunal body to hear appeals.
6. **The Rent Service**—providing a range of advice in connection with the private rented housing sector in England.

- Providing **corporate strategies and frameworks, and common shared processes and systems** for the Department as a whole and, in doing so making best use of available resources. These corporate roles—such as IT development, human resources policy and financial management and control—are critical in enabling the Department to deliver its overall programme successfully and with adequate control.

The Department also has ministerial responsibility for the Health and Safety Commission and Executive, and is jointly responsible with the Department for Education and Skills for the Sure Start Unit, which brings together childcare, education, health and family support services in order to tackle child poverty and social exclusion and to promote the physical, intellectual and social development of young children.

Many of the Department's services are delivered jointly with a wide range of partner organisations, for example Housing Benefit and Council Tax Benefit are administered by local authorities.

The Department's Executive Team, led by the Permanent Secretary and comprising Client Directors, Chief Executives and Group Functional Directors, oversees and manages the whole organisation.

Delivery of the Departmental Public Service Agreement is the responsibility of all parts of the Department working together.

Principal activities for achieving the Department's objectives in 2004-05

The principal activities of the Department during 2004-05 were:

- to develop policies, strategies and plans to meet the Government's welfare reform agenda;
- to provide a range of services to both jobseekers and employers, contributing to high employment and low unemployment rates, through the national network of integrated Jobcentre Plus sites and a decreasing number of Jobcentres and Social Security offices, and also by working in partnership with other organisations;
- to assess and deliver other social security benefits relating to the Department's objectives, and to support housing and council tax benefits delivered by local authorities;
- to assess, collect and arrange child support maintenance, ensuring parents maintain their children wherever they can afford to do so;
- to build on the successful launch of Pension Credit, and continue to improve and modernise services for today's and future pensioners, tailoring services to meet customers' needs and improving efficiency;
- to bring forward legislative proposals designed to improve financial security for current and future pensioners, strengthen confidence in occupational pension schemes, and increase opportunities for flexibility in retirement;
- following pre-legislative scrutiny and consultation, to bring forward a draft Disability Discrimination Bill, which builds on legislative changes made since 1997 to extend the rights and opportunities of disabled people; and
- to build on investment in the modernisation of the Department's office network and IT systems to drive forward delivery of its objectives through becoming a more efficient, customer-focused organisation.

Measuring achievement of objectives

Achievement is measured through monitoring the Department's progress against its Public Service Agreement targets, and through the more detailed performance targets set by the Secretary of State for individual agencies and businesses. Performance is formally reported in the Departmental Report, Autumn Performance Report and Agency Reports and Accounts, as well as through regular performance updates on the HM Treasury website (www.hm-treasury.gov.uk/performance/DWP.cfm).

Overall performance in 2004-05

During 2004-05, the Department continued to deliver its programme of welfare reform, to work towards the delivery of its 2002 Spending Review Public Service Agreement targets and to develop strategies, policies and plans to achieve its objectives into the period covered by the 2004 Spending Review. The Department is on course to deliver the majority of its targets, and has met one early.

Significant aspects of performance were:

- Continued steady progress in reducing child poverty.
- Increasing numbers of new child support cases dealt with under the new scheme introduced in March 2003, although problems with the computer and telephony systems have continued throughout the year, so progress has been much slower than originally expected.
- Active labour market policies, New Deal programmes and other initiatives contributed to the highest employment and lowest unemployment levels in the G7 countries.
- Continued progress in improving employment rates of disadvantaged groups.
- Pathways to work pilots showed encouraging results.
- There are now over 600 Jobcentre Plus integrated offices in operation.
- The Pension Service is bringing extra income to pensioners, with 2.7 million pensioner households receiving Pension Credit by the end of March 2005.
- The Disability and Carers Service attained Executive Agency status on 1 November 2004.
- The Disability Discrimination Act 2005 received Royal Assent in April 2005, substantially increasing the rights of disabled people and extending protection to a wider range of areas.
- The PSA target on Direct Payment was met a year early, and progress continued so that almost 97 per cent of benefit accounts were being paid into an account by April 2005.
- Debt management activity was centralised in ten Debt Centres by February 2005, with nearly £189 million recovered in the year.
- The Department's commercial strategy and procurement initiatives were recognised as good practice in the NAO report *Improving Procurement*.
- The Rent Service joined the Department in April 2004 and is contributing to the Department's objective to ensure customers receive a high-quality, accurate service.
- Continued progress with sustainable development initiatives.

The Department spent an estimated £90 million on learning and development, including induction programmes, generic skills development and leadership and management development. The Department is also making increased use of IT to modernise the way people learn, and is focusing on business priorities in order to maintain and improve performance.

Modernisation of the Department continued through increasing numbers of integrated Jobcentre Plus offices, the continuing rollout of the Customer Management System, and conversion of customer accounts to Direct Payment.

The Department agreed a three-year pay deal with the Departmental Trade Unions effective from July 2004. Changes to the Performance and Development system were also agreed.

Financial Position and Results for the Year

Financial Position (Schedule 3)

The Department's activities are financed by Supply voted by Parliament and financing from the National Insurance Fund.

The Balance Sheet is dominated by debtors of £3.6 billion and creditors of £4.9 billion which consist mainly of amounts due to or from the Department in respect of benefit payments and European Social Fund claims.

Also of significance are the tangible assets of £741 million which are comprised mainly of leasehold improvements of £377.7 million and IT related assets of £257.1 million. Leasehold improvements consist of expenditure in respect of major capital refurbishment and improvement of properties occupied but not owned by the Department. IT related assets consist of hardware with a net book value of £159.9 million and software both under development and in use amounting to £97.2 million.

In addition, the Department has, for the first time, an on-balance sheet PFI contract in respect of serviced accommodation for laboratory and support functions within HSE. This is represented on the balance sheet by a long-term liability to pay finance lease charges to the value of £57.6 million.

Results for the year (Schedules 1 and 2)

The Operating Cost Statement includes:

- Net Operating Cost amounting to £118.7 billion (2003-04 £111.6 billion); and
- Gross payments of social security benefits administered by the Department amounting to £112.4 billion (2003-04 £105.6 billion). In addition, the Department also made payments of £0.5 billion (2003-04 £0.6 billion) on behalf of the European Social Fund.

Excess Vote

The Department has a number of Parliamentary control totals against which it is monitored and has operated within during the financial year:

1) Departmental Expenditure Limit — Outturn was £8.7 billion, within 0.9% of the Estimate.

2) Administration Cost Limit — Outturn was £6.1 billion, within 1.0% of the Estimate.

3) Net Cash Requirement — Outturn was £58.5 billion, within 4.5% of the Estimate.

4) Total Resource Outturn was £60.5 billion, within 0.06% of the Estimate.

In addition, each Request for Resources (RfR) has an individual control total, one of which has been exceeded by the Department this year. Expenditure on RfR2 was £35.2 billion, 0.54% over the Estimate. The overspend is comprised of two main areas: Income Support shortfall in receipts and Housing Benefit overspend on expenditure.

Income Support (IS)

IS receipts were £120 million compared to an estimate of £171 million. The receipts are primarily from the Child Support Agency (CSA) Client Fund Account, when CSA collects maintenance payments from non-resident parents, where the parent with care receives their Income Support gross. Estimates are made regarding the amount of CSA recoveries that would be made and could be offset against IS expenditure.

In March 2003 Child Support Reforms were introduced and it was forecast that this would improve the performance of the CSA. Estimates of CSA recoveries took account of the fact that processing times and case compliance were expected to improve. These two factors should have increased the money the CSA received, some of which would be recovered by the Department in respect of IS paid out to parents with care. In reality the Agency has continued to face many problems and both processing times and compliance have not improved. As a result, the estimates made in respect of recoveries were too high.

The Agency's operations and service delivery are currently being reviewed with a view to improving performance. Findings will be reported to Ministers shortly, and then reported to Parliament in due course.

Housing Benefit

The underestimate of Housing Benefit provision is principally due to an underestimate of subsidy costs in respect of benefit paid to those who present themselves to local authorities as temporarily homeless (non-Housing Resource Account Rent Rebate). Expenditure unexpectedly rose by 60% compared to the previous year, due to a shift from the use of bed and breakfast accommodation for homeless tenants, to using higher rental, "short term lease" type accommodation. The forecasts did not anticipate this behavioural change, which appears to result from recent subsidy changes which have created a financial incentive to switch tenants, and Office of the Deputy Prime Minister (ODPM) initiatives to limit the use of bed and breakfast accommodation. Additional cost also came from a 0.7% increase in the proportion of other Housing Benefit expenditure which attracted a subsidy, again likely to stem from behavioural changes by authorities.

Cash Flows (Schedule 4)

The Cashflow Statement shows a net cash outflow from operating activities of £117.3 million compared to a cash outflow in 2003-04 of £112.0 million. The change is mainly due to the increase in net operating costs of the Department from £111.6 million to £118.7 million.

The £242.5 million net cash outflow on investing activities consists mainly of expenditure on fixed asset additions of £219.4 million, the major items being software development, classified as Assets under Construction, and Leasehold Improvements, together with the land and buildings acquired under the new PFI contract.

The financing cash inflow has increased due to additional funding from the NIF this year as a result of increased contributory benefit expenditure made by the DWP, which is reimbursed to the Department from the National Insurance Fund.

Funding

The Department has one Vote which is constructed on a resource basis and is analysed by Request for Resources (RfR).

The Department is subject to gross expenditure control under the Parliamentary Vote system. The net cash costs have been accounted for within Schedule 1 of this Account.

Prior Year Comparatives

The comparative figures have been restated to take account of Machinery of Government changes when The Rent Service transferred from ODPM on 1 April 2004 (see Note 2).

Investment

The Department's investment plans were set out in its Departmental Investment Strategy 2003-04–2005-06 (www.dwp.gov.uk/publications/dwp/2002/dis/dis_2003-06.pdf).

The Department's major tasks as set out in the investment strategy were to:

- Deliver key welfare reform initiatives including Pension Credit, Child Support Reform and getting more people into work;
- Build the new customer-facing Pension Service and Jobcentre Plus;
- Change and modernise much of the Department's core infrastructure; and
- Keep current services running smoothly and continue to bear down on fraud and error.

Performance in 2004-05 towards accomplishing these tasks was reported in the 2005 Departmental Report, and in the principal activities and overall performance sections above.

Management

Appointment of The Permanent Secretary and members of the Executive Team

The permanent head of the Department was appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service and with the agreement of the Ministerial Head of Department.

Other members of the Executive Team were appointed by the Permanent Secretary, with the approval of the Ministerial Head of Department and, where appropriate, the Prime Minister. All members of the Executive Team are Permanent Civil Servants, with the exception of David Anderson, Joe Harley and Simon MacDowall who are employed on a fixed term appointment basis, and John Cross who was appointed as an interim Executive on a fee basis.

The appointments are governed by the terms of the Senior Civil Service contract.

Remuneration of Ministers and members of the Executive Team

Ministers' remuneration is set by the Ministerial and Other Salaries Act 1975 (as amended by the Ministerial and Other Salaries Order 1996) and the Ministerial and Other Pensions and Salaries Act 1991.

Permanent Secretaries' pay is set by the Prime Minister on the recommendation of the Permanent Secretaries Remuneration Committee. The Committee's membership and terms of reference were announced by the then Prime Minister on 9 February 1995 (Hansard, cols 245-247). These arrangements governed the pay of Sir Richard Mottram, Paul Gray and David Anderson.

For other members of the Executive Team, pay is determined by the Permanent Secretary in line with the Senior Civil Service pay arrangements.

Further details of remuneration are set out in Note 3 to these accounts.

Ministers and Senior Officers

The following held ministerial office during the year with responsibilities as shown:

Rt Hon Andrew Smith MP	Secretary of State for Work and Pensions to 6 September 2004
Rt Hon Alan Johnson MP	Secretary of State for Work and Pensions from 6 September 2004
Des Browne MP	Minister of State (Minister for Work) to 1 April 2004
Jane Kennedy MP	Minister of State (Minister for Work) from 3 April 2004
Malcolm Wicks MP	Minister of State (Minister for Pensions)
Rt Hon Margaret Hodge MP MBE	Minister of State (Minister for Sure Start, Early Years and Childcare) from 9 September 2004.

Baroness Ashton of Upholland	Parliamentary Under-Secretary of State (Minister for Sure Start, Early Years and Childcare) to 9 September 2004
Rt Hon Baroness Hollis of Heigham	Parliamentary Under-Secretary of State
Chris Pond MP	Parliamentary Under-Secretary of State
Maria Eagle MP	Parliamentary Under-Secretary of State (Minister for Disabled People)

Following the General Election on 5 May 2005, a new Ministerial Team was appointed:

Rt Hon David Blunkett MP	Secretary of State for Work and Pensions
Mr Stephen Timms MP	Minister of State for Pensions Reform
Rt Hon Margaret Hodge MP MBE	Minister of State for Employment and Welfare Reform
Lord Hunt of King's Heath	Parliamentary Under-Secretary (Lords)
Mr James Plaskitt MP	Parliamentary Under-Secretary
Mrs Anne McGuire MP	Parliamentary Under-Secretary (Minister for Disabled People)

On 2 November 2005, the Rt Hon David Blunkett MP resigned and the Rt Hon John Hutton MP was appointed as Secretary of State.

Executive Team

The composition of the Executive Team during the year was as follows:

Sir Richard Mottram*	Permanent Secretary and Head of Department
Paul Gray	Pensions and Disability Managing Director to 1 September 2004
Alan Woods	Acting Head of Pensions Client Group from 16 August 2004 to 12 November 2004
Phil Wynn Owen	Director General, Strategy and Pensions from 15 November 2004
Ursula Brennan	Working Age and Children Client Group Director to 7 April 2004
Michael Richardson	Interim Working Age and Children Client Group Director from 8 April 2004 to 5 September 2004
David Anderson*	Jobcentre Plus Chief Executive
Alexis Cleveland*	The Pension Service Chief Executive
Doug Smith	Child Support Agency Chief Executive
Adam Sharples	Work, Welfare and Equality Group Director from 6 September 2004
John Codling*	Finance Director General
Kevin White	Human Resources Director General
John Cross	Interim Group Programme and Systems Delivery Director and Chief Information Officer to 28 July 2004
Joe Harley	Chief Information Officer and Group Director of Programme and Systems Delivery from 28 July 2004

Two additional ET members were appointed from 10 January 2005:

Simon MacDowall	Director of Communications
Paul Jenkins	Head of Law and Special Policy Group - The Solicitor

David Anderson left the Department on 15 May 2005 to become Chief Executive of Co-operative Financial Services Ltd. Lesley Strathie was appointed Acting Chief Executive for Jobcentre Plus from 16 May 2005.

With effect from 4 April 2005, Stephen Geraghty took over from Doug Smith as Chief Executive of the Child Support Agency.

Departmental Board

* The above members of the Executive Team are also members of the Departmental Board. In addition, there are five Non-Executive Members of the Departmental Board as follows:

Bridget Rosewell	Non-Executive Member
Graham Stow	Non-Executive Member
Michael Sommers	Non-Executive Member
Paul Gray	Non-Executive Member from 23 September 2004
John Cross	Non-Executive Member from 29 July 2004

Bridget Rosewell left the Departmental Board on 22 July 2005.

Company Directorships

Sir Richard Mottram is a Governor of Ashridge and a Governor and Council Member of the Ditchley Foundation.

David Anderson is Director of Bradford Centre Regeneration Limited.

John Cross serves on the following Boards:

ServiceTec Inc. (Non-Executive Director)
ICEX Inc. (Advisory Board Member)
Mastek Ltd (Advisory Board Member)

Bridget Rosewell serves on the following Boards:

Volterra Consulting (Chairman)
Britannia Building Society (Non-Executive Director)
The Environment Business (Chairman)
Full Employment UK (Trustee)

Michael Sommers is a Non-Executive Director of The Ordnance Survey.

Graham Stow serves on the following Boards:

Home and Legacy Insurance Services Ltd (Chairman)
Co-op Financial Services, Co-op Bank and Co-op Insurance Society (Non-Executive Director)
Northern Racing (Chairman)
Second World War Experience Centre (Director and Trustee)
Kiddy & Partners (Advisory Board Member)

Public Interest and Other

Employment of disabled persons

People with disabilities, as defined in the Disability Discrimination Act 2005, are employed across all grades within the Department. The Department played a major role in the 2003 European Year of Disabled People and ran a substantial disability awareness programme from May 2003 onwards. This was aimed at improving the level of knowledge and understanding throughout the Department in order to improve services for disabled staff and customers.

Committed to Equality and Valuing Diversity

The Department seeks to actively promote a culture which embraces diversity and promotes equality of opportunity. As an employer, the Department seeks to recruit a diverse and talented workforce that is representative of the society it serves. Its goal is to ensure that these commitments, reinforced by its Values, are embedded in its day-to-day working practices with all its customers, colleagues and partners.

Employee Involvement

Staff have access to welfare services which support staff and managers and promote well-being in the workplace.

Staff also have access to trade union membership.

The Department has procedures for consulting its trade unions and supports staff representation in the workforce by trade union representatives.

The Department actively communicates with staff and is committed to ensuring that staff at all levels can contribute towards decisions affecting the day-to-day business of the Department.

Payment to Suppliers

The Department is committed to the prompt payment of bills for goods and services received. Payments are normally made as specified in the suppliers' contract. If there is no contractual provision or other understanding, the Department aims to make all payments not in dispute within 30 days of the receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever is later. A review of all payments made during the year, conducted to measure how promptly the Department pays its bills, found that 96.28% (2003-04 94.93%) of bills were paid within this standard. This year's performance has been achieved by improvements in processes across the whole Department. This has been attributed to initiatives such as benchmarking against higher performing departments, raising awareness via a number of bulletins and an improved Intranet site, and alerting managers of poorly performing cost centres.

The 'Late Payment of Commercial Debts (Interest) Act 1998' and the 'Late Payment of Commercial Debts Regulations 2002' provides all businesses and public sector bodies with the following entitlements:

i. the right to claim interest for late payment;

ii. the right to claim reasonable debt recovery costs, unless the supplier has acted unreasonably;

iii. the right to challenge contractual terms that do not provide a substantial remedy against late payment; and

iv. the right for 'representative bodies' to challenge contractual terms that are grossly unfair on behalf of small and medium sized enterprises.

There were interest charges of £5,935.49 arising and payable by the Department during the year (2003-04 £2,977.88). These charges are included within goods and services as part of non-staff administration costs, which are reported at Note 4.

Introduction of the Euro

The Department continues to maintain its changeover planning and preparation activities such that, in the event of a positive decision to join the Single European Currency, the changes required to the computer systems, business systems and products will have been identified and quantified and we would be able to meet the timescales set out in the Third National Changeover Plan.

External Audit

These accounts have been audited by the Comptroller and Auditor General in accordance with the Government Resources and Accounts Act 2000. His certificate and report appear on pages 19 to 26.

The cost of audit work was £1,582,000, which solely related to audit services. This included actual costs of £83,000 (see Note 4) and notional costs of £1,499,000 (see Note 6).

Value for Money studies are ongoing in the following areas:

- Contact Centres: the future?
- Gaining and retaining a job: the Department for Work and Pensions' support for people with disabilities
- Managing the Complexity of Benefit Regulations
- Communicating with the Public: Ensuring the Accuracy of Information
- Progress in Tackling Pensioner Poverty

Richard Mottram
Accounting Officer

11 November 2005

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, the Department is required to prepare Resource Accounts for each financial year, in conformity with a Treasury Direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.

The Resource Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department, with responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer is required to comply with the *Resource Accounting Manual* prepared by HM Treasury, and in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Government Accounting*.

Statement on Internal Control

Scope of responsibility

As Principal Accounting Officer, I am responsible for maintaining a sound system of internal control that supports the achievement of the Department for Work and Pensions' aims, objectives and policies, whilst safeguarding the public funds and Departmental assets for which I am personally accountable, in accordance with the responsibilities assigned to me in *Government Accounting*.

I have delegated some Accounting Officer responsibilities to the Chief Executives of the Agencies and Non Departmental Public Bodies which fall within the Departmental boundary. Individual Chief Executives are accountable for the maintenance and operation of the system of internal control and risk management in their business areas, and for the production of an associated Statement on Internal Control.

The Department's Executive Team (ET), of which I am Chair, has shared responsibility for the leadership and strategic management of the Department including its Agencies in line with Ministers' objectives and Public Service Agreement (PSA) targets. The strategic management of the Department includes designing and securing a sound governance framework and system of internal control and ensuring compliance with them. My accountabilities, and those of senior directors within the Department, are formally recorded in the Departmental Framework. The Departmental Framework has been reviewed during the course of 2004-05 to reflect machinery of government changes and to strengthen and further clarify accountabilities and decision-making across the Department. The revised framework and underpinning governance documentation will be published in the Autumn 2005. As part of this review I have agreed to the establishment of a new Corporate Leadership and Governance directorate, reporting directly to the Departmental Solicitor, which will have an overarching role in ensuring effective governance arrangements in the Department.

The Departmental Delivery Plan 2003-2006 and its successor, the Delivery Plan 2005-2008 set out our high-level plans for achieving our PSA targets which were agreed as part of the Spending Reviews in 2002 (SR2002) and 2004 (SR2004) respectively, and capture our strategic risks, financial allocations and underpinning planning assumptions. The Department has produced a five-year strategy to identify long-term objectives, and articulate a high-level approach to their achievement. This strategy was published in February 2005 and forms the basis of our future delivery plans.

As Permanent Secretary, I chair the Departmental Board, which is responsible for scrutinising, challenging and providing advice on delivery strategies, plans, programmes, performance and governance arrangements. The Board is comprised of four senior members of the Department and five non-executive directors who offer independent and constructive challenge. For part of the period covered by this statement, one non-executive member was temporarily appointed to an executive position. A permanent appointment to this role was made in August 2004 and the temporary appointee returned to his non-executive position.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve aims and objectives and the policies and delivery plans and programmes to achieve them. It can therefore provide only reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental aims, objectives and policies, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department for Work and Pensions for the year ended 31 March 2005 and up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

Capacity to handle risk

The Department remains committed to the aims of the Government's risk-improvement programme, which ended in November 2004. A review of the Risk Management Framework and Policy is underway to reflect post-programme initiatives. We have recently transferred the corporate Risk Management function of the Department to Internal Assurance Services to strengthen our ability to promote and embed risk management within the business and to encourage awareness and compliance.

Further to improve the communication, sharing and reporting of risk across the Department, ET has endorsed a Departmental Risk Management Standard and Common Language.

Every quarter, ET formally reviews the strategic risks facing the Department and the associated mitigation plans, as recorded in the strategic risk register. The strategic risk register is also subject to independent review and challenge by the Departmental Board. In July 2004 I established a Strategic Risk Review Board (SRRB), with Board-level representation from business areas across the Department. The SRRB meets each quarter and is chaired by the Finance Director General. The SRRB specifically supports me in the identification and management of cross-cutting risks, and in identifying, escalating and mitigating appropriate risks to be recorded in the strategic risk register.

I have set in place a Finance Transformation Programme (FTP) to strengthen further finance capabilities and improve finance capabilities and the role of finance across the Department. The transformation project recognises the need for a more professionally-trained workforce in line with the Professional Skills for Government agenda to provide expert advice and support to management. A comprehensive work programme continues to be taken forward under FTP ensuring that the Department's structures, policies, processes and associated control arrangements accord with integrated governance, risk management and assurance best practice.

The challenge of achieving PSA targets and other agreed performance levels, while delivering the required efficiencies, including the considerable reduction in headcount set out in the SR2004 settlement, continues to be judged by the ET to be a significant strategic risk to the Department. This is being addressed by co-ordinating the achievement of the targets through an Efficiency Programme, which was established in July 2004. The Efficiency Programme is directed by a Programme Board of which I am Chair, and is comprised of ET members with direct responsibility for the successful delivery of both the Efficiency Programme and Modernisation Programme. Within these Programmes there are transformation work streams covering all aspects of the Department's work, each with senior responsible owners and effective governance arrangements.

The continuing modernisation of all our key delivery services while at least maintaining our volume and standard of services to customers, is recognised by ourselves, OGC, HMT and NAO to represent a considerable challenge. Each of the Senior Responsible Owners and I individually and collectively through the ET and Efficiency Programme Board keep this balance under very careful review. We are vigilant in ensuring that any changes in delivery plans by timing or benefits are covered operationally by business continuity and for benefits and the achievement of efficiency targets by compensating savings from the business in question or elsewhere in the Department. We are working with our main suppliers to ensure value for money in delivery in line with market benchmarks.

The risk and control framework

Risk management is an integral part of our business-planning and performance-monitoring processes. ET members are individually accountable for managing risks to the achievement of PSA targets. Performance against these targets is monitored as part of the quarterly Performance and Risk Report presented to the Departmental Board.

The Department has in place established Standing Financial Instructions, which specify the Department's high-level system of financial control. Work has taken place during the year to develop similar high-level control frameworks for non-financial areas. The Standing Business Instructions and Human Resources Instructions are due to be endorsed by the ET once the revised Departmental Framework has been formally approved.

The ET recognises the need to improve levels of financial awareness amongst all staff to encourage the appropriate consideration of the financial implications of business decisions. This was identified in last year's Statement on Internal Control. This work was jointly led by the Human Resources Director General and the Finance Director General who oversaw a programme of activities designed to improve levels of financial awareness and capability. Key developments included the introduction of the "Resources and You" portal on the Department's intranet site, which provides all staff with a "one-stop shop" for resource management learning and guidance, and the implementation of the Department's new generic competency framework, which requires all staff to be assessed against a mandatory "making best use of resources" competency.

The Department complies with relevant data-protection legislation and takes action to address any weaknesses that come to light to minimise the risk of unauthorised disclosure of any personal information it holds. The Department has in place a comprehensive set of Information System Security standards and an Information Security Committee with representatives from across the Department. The committee meets quarterly to set and approve policy and to oversee the major information-security issues facing the Department.

The Department's business-continuity management arrangements are set out in the Departmental Business Continuity Framework and are championed by an ET member. During the course of the year Internal Assurance have provided advice and guidance to business units and related projects, and have facilitated a number of rehearsals to ensure that Business Continuity Plans are robust. They have also reviewed and revised the Framework in the light of lessons learned.

Review of effectiveness

As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the Departmental Board and the Departmental Audit Committee. Activities to address weaknesses and ensure continuous improvement of the system have been planned and implemented where necessary.

Significant internal-control problems and areas for improvement identified in last year's Statement on Internal Control have been captured in a Departmental Statement on Internal Control (SIC) Action Report, which has been regularly updated and is formally reviewed at each meeting of the Departmental Audit Committee. The quarterly report features a summary of progress made to date, provided by the relevant ET member, supplemented by an independent Internal Audit commentary.

Formal benchmarking of the level of risk-management capability across the Department has been assessed twice this year using the HM Treasury Risk Assessment Framework, providing evidence that significant improvement has been made, and that risk management is now embedded in all key areas. Internal Audit validated the findings of each assessment, and senior managers in respect of each business area have drawn up Risk Improvement Plans to enable us to drive and monitor future progress in line with HM Treasury expectations.

The Department's Internal Audit function operates in full compliance with the Government Internal Audit Standards. The Department has, where appropriate, responded to recommendations made by National Audit Office, the Public Accounts Committee, the Office of Government Commerce and the Department's own Standards Committees and Internal Assurance Services.

The internal-audit work programme for 2004-05 reflected extensive discussions with my senior managers, focusing on what they and Internal Assurance Services saw as the areas of greatest risk to the achievement of our business objectives. The work programme was approved by the Departmental Audit Committee, and was kept under review by all parties throughout the year to ensure that it reflected changing business risks and priorities. In his Annual Assurance Report, the Director of Internal Audit recognised the progress made in reviewing Governance and Risk processes, but considered that there has been insufficient time to see the results of these changes. Whilst improvements had been made to the system of internal control, further work needs to be done, and consequently he has provided me with an overall limited assurance over the risk, governance and control mechanisms within the Department.

Assurance that the Department has the ability to protect itself from a variety of security threats is provided by the work of the Departmental Security Officer. This unit considers threats to IT security, physical threats to people and premises, and also investigates instances of internal fraud and abuse. The Department has made improvements in its security regimes throughout 2004-05 and has recently commenced a security awareness programme.

The Chief Executives and senior managers within the Department have each provided me with a Letter of Assurance, setting out their opinions on how effectively the risks associated with the discharge of their accountabilities have been managed, and where appropriate, highlighting any significant internal-control problems. This review process has helped me to identify a number of significant control weaknesses, which are set out in the following paragraphs. A number of these are long-standing weaknesses, which have been declared in previous statements.

Significant internal control problems

Losses from fraud and error in the benefit system continue to be a problem for the Department and I estimate that they are likely to amount to about 2.3% of benefit spend (approximately £2.6 billion) in 2004-05. About a third of these losses are directly attributable to errors arising within the Department's or Local Authorities' own benefit processes, with a further third attributable to customer behaviour, and the remainder due to fraud. The Department has ambitious PSA targets for the reduction of fraud and error in the main areas of loss-Income Support, Jobseekers Allowance (JSA), Housing Benefit and Pension Credit. Internal Audit reports in respect of Income Support and JSA indicate that interim targets have been exceeded and that the Department has already achieved a 50% reduction in fraud and error. It is less certain that we will meet the targets for Pension Credit and Housing Benefit.

The National Audit Office were unable to locate a number of case papers during their audit examinations in relation to the production of the 2003-04 accounts, resulting in the limiting of audit scope and the subsequent qualification of the 2003-04 Social Fund Accounts. This was partly the result of problems with remote storage and poor filing and control in front-line offices. There has been a noticeable improvement in this area, with less than 1% of files requested for Internal Assurance performance-measurement purposes not being retrieved. This retrieval rate does however vary for individual benefits and offices. A Departmental review of the contracting arrangements for remote storage is consolidating the service into a single store and has introduced a standard process supported by a modern IT system. The contract sets more demanding performance and accuracy targets than before, and significant improvements have already been identified in both these areas. Performance targets for staff have been introduced and will continue to be measured during 2005.

There continues to be concern about uncertainties in the Department's debtor balances and in the procedures associated with potential programme-expenditure overpayments. The Debt Programme has started to deliver improvements through a number of key initiatives, including a new debt centre structure, data cleansing, and the introduction of a new IT system. Accounting issues are being managed through the development of a Debt Accounting Improvement Plan. A number of partnership agreements have been introduced, along with refined processes to ensure that timely and accurate information is provided by client groups to support the handling of overpayment cases.

Although there has been progress, there remain substantial problems in the introduction of the new Child Support System by the Child Support Agency. The migration and conversion of old scheme cases to the new scheme has been deferred. Interim Security Accreditation has been awarded until March 2006 following work to improve our security countermeasures. This accreditation means that, although there are some exceptions and risks which need to be managed, the standards required to process Departmental information are now met.

While the Department's sick-absence level continues to cause concern, a reduction in average working days lost from 12.8 to 12.3 days has been achieved between last year and this (against a target of 8 days). A number of measures have been put in place to improve compliance with the DWP's managing attendance policy. These include senior management commitment to reducing sick absence, improvements in training and awareness, and revisions to and re-launch of the attendance management policy. Additionally, implementation of the staff information system is helping managers manage attendance more effectively.

Non-compliance with business and financial controls remains a problem, although good progress is being made towards implementing a risk-based control system to replace the Department's current mandatory checking regime, which for many years has suffered from non-compliance. Roll out of the new Business Control System is due to commence towards the end of 2005-06.

Richard Mottram
Accounting Officer

11 November 2005

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 27 to 91 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 35 to 40.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 14, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 15 to 18 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. However:

- The Department was unable to provide sufficient assurance that the £1,254 million of the balance sheet debt relating to gross customer overpayments, and the £625 million of the balance sheet debt relating to gross other Social Fund debtors, are accurately stated.

There were no other satisfactory procedures that I could adopt to confirm that the amounts for customer overpayments and other Social Fund debtors were accurately stated.

In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion due to limitation of scope and irregular expenditure

As disclosed in Note 44 of the Accounts, Schedule 2 expenditure includes benefit payments calculated erroneously and benefit payments arising from fraudulent claims. Under Social Security legislation, the Department must calculate benefits due in accordance with the regulations; it has no authority to vary benefit awards. Fraudulent transactions cannot, by definition, be regular since they are without proper authority. Accordingly, I have concluded that expenditure arising from erroneous benefit awards and fraudulent benefit claims has not been applied to the purposes intended by Parliament and is not in conformity with the authorities which govern it.

As explained more fully in the attached report, Parliament authorised a Request for Resources for the Department in the Appropriation Acts 2004 and 2005. Net resources of £34,980.4 million were authorised for Request for Resources 2. Against this authorised limit, the Department incurred net resource expenditure of £35,168.6 million as shown in Schedule 1 to the Resource Accounts for 2004-05 and have thus exceeded the authorised limit.

In my opinion:

- Except for any adjustments that might have been found to be necessary had I been able to obtain sufficient evidence concerning the completeness, existence and valuation of customer overpayment debt, and the assessment of other Social Fund debtors, the financial statements give a true and fair view of the state of affairs of the Department for Work and Pensions as at 31 March 2005 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- Except for the expenditure relating to erroneous benefit awards and arising from fraudulent benefit claims and net resource expenditure of £188.2 million in excess of the amount authorised for Request for Resources 2, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In respect alone of the limitations on my work relating to customer overpayment debt and other Social Fund debt:

- I have not obtained all the information and explanations that I considered necessary for the purpose of my audit; and
- I was unable to determine whether proper accounting records had been maintained.

Details of these matters are set out in my report on pages 21 to 26.

John Bourn
Comptroller and Auditor General

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

20 December 2005

"The maintenance and integrity of the Department for Work and Pensions' website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsiblity for any changes that may have occurred to the financial statements since they were initially presented on the web site."

Report by the Comptroller and Auditor General

Introduction

1. In its consolidated resource accounts, the Department for Work and Pensions accounts for expenditure of £118.7 billion on a wide range of benefits, employment programmes and the associated administration costs, together with its assets and liabilities at the year-end.

2. In 2004-05, I began the rollout of an enhanced financial audit strategy for the audit of the Department's financial statements. My main motivation in doing this was to assist the Department in addressing some of the long standing problems which have led to qualification and to improve the scoping and disclosure within the published accounts so as to focus attention on the barriers to long term improvement. The audit strategy also aims to assist the Department in achieving common goals, for example faster closing and the identification of efficiency savings.

3. I am pleased that the Department has already achieved some positive results including the resolution of the underlying problems which had led to last year's qualification for missing Incapacity Benefit case files, and accelerated audit and accounts clearance processes across the consolidated group of accounts. I also welcome the Department's improved payment accuracy disclosures, which should serve to enhance the transparency of the problem areas underlying the longstanding qualification.

Audit Opinion

4. I have, nonetheless, qualified my opinion on the accounts on four specific issues:

i. Substantial levels of estimated losses from fraud and error in benefit expenditure recorded in the operating cost statement. I provide full details, including commentary on the Department's enhanced payment accuracy disclosure in paragraphs 7 to 27.

ii. Material uncertainties over contributory and non-contributory benefit customer overpayment debtors. Details are discussed in paragraphs 28 to 32.

iii. A significant limitation in the evidence made available to the National Audit Office during the audit of other Social Fund debtors. Details are discussed in paragraphs 33 to 35.

iv. An Excess Vote within the Request for Resources 2 - Working Age. This results in a breach of regularity qualification on the accounts, as this expenditure did not have Parliamentary authority. Details are provided in paragraphs 36 to 45.

5. The remaining section of my report, in paragraphs 46 to 50, discusses an exercise undertaken by the Department to assess the level of missing cases across all benefits in 2004-05. I have as a result of my review of this exercise been able to remove the previous 2003-04 qualification in respect of missing Incapacity Benefit cases.

6. I have however still qualified my opinion on the Social Fund White Paper Account for 2004-05 on the grounds that the levels of missing cases in respect of certain grants and loans, were significant enough to warrant a limitation on the scope. This account, together with my certificate and report, was laid before Parliament on 29 November 2005 (HC ref.724). Whilst the amounts concerned are not material to the expenditure of the Resource Accounts they did, in the case of loans, prove material to the balance sheet of the Resource Accounts, resulting in the qualification in respect of other Social Fund debtors as noted above.

Estimated fraud and error in benefit expenditure (Schedule 2 and note 44 of the accounts)

7. The National Audit Office, based on information provided by the Department and its own independent testing, has concluded that an estimated £2.6 billion may have been lost from benefit payments because of fraud and error. A further estimated £0.7 billion was paid to customers in respect of Disability Living Allowance (DLA) and related premiums, which would not have been paid if these customers' case details had been reviewed earlier.

The estimation methodology

8. The Department's evidence supporting the combined fraud and error estimate is based on a range of exercises, which cover all significant benefit types on a cyclical basis. The frequency and detail of the work undertaken is proportionate to the value of expenditure and the assessed likelihood of fraud and error occurring

in each benefit type. I provide further details on the individual exercises later in my report, but in broad summary they can be grouped into three categories:

- Continuously Measured Benefits (for example, Income Support, Jobseeker's Allowance, Pension Credit and Housing Benefit), which are subject to a continuous rolling programme of checking, validation and fraud and error evaluation;
- National Benefit Reviews (for example, of Disability Living Allowance, Incapacity Benefit and Retirement Pensions), which periodically consider individual benefits and provide a snapshot assessment of fraud and error not otherwise measured. The annual estimates for Incapacity Benefit and Retirement Pensions benefits are further supported by an annual review that rolls forward and reassesses the error assessment made at the time of their last full review;
- Annual statistical assessments of fraud and error based largely on historic data and covering benefits with lower levels expenditure and lower risks of fraud and error occurrence.

The resulting estimate focuses on overpayments that result from fraud and error, but also generates estimates of underpayments particularly in relation to the continuously measured benefits.

9. In each of the years 2001-02 to 2003-04 the methodology for estimating fraud and error overpayments remained much the same and the reported estimated value was constant at around £3 billion. For 2004-05 the estimation methodology changed from that used in previous years in two significant ways.

10. Firstly, the rounding and overall accuracy levels used throughout the estimation process were tightened and the resulting details disclosed in the payment accuracy note made much more transparent. The fraud and error estimate which was previously reported as an overall total and rounded to the nearest £0.5 billion is now reported in tabular format that reflects the more extensive details from the underlying estimation work and is rounded to the tighter amount of £0.1 billion. Furthermore, the overall degree of tolerance in the total estimate, which provides a good measure of accuracy, has also improved to +/−£0.3 billion. I understand this to have previously been nearer +/−£0.5 billion.

11. The second change in methodology, which I discuss in more detail at paragraphs 17 to 21, came about through a National Benefit Review of Disability Living Allowance (DLA). This identified for the first time a specific group of cases associated with DLA (and related premiums on other benefits) where payments were correctly made based on the case information available at the time, but where a case review would be expected to lead to a reduction in payment. In past Resource Accounts such cases were treated as overpayment errors or fraud, so their reclassification does result in significant sums being removed from the previously reported estimate.

12. Whilst I welcome the improved disclosure and accuracy brought about by these changes the effect of their combined adoption in 2004-05 makes it difficult to draw any firm conclusions as to the success of the Department in tackling the problem of fraud and error. The Department has recognised this fact by re-stating 2003-04 comparative figures using the revised methodology, but it nonetheless remains difficult to track the full impact of the change in methodology. For example, of the £3 billion fraud and error reported in 2003-04, £2 billion was attributed to fraud. The equivalent figure for fraud overpayments in 2003-04 as re-stated in the 2004-05 accounts is only £1 billion. The £1 billion decrease results from a combination of the overall improved accuracy of the estimates and the reclassification of fraud estimates relating to DLA. Neither represents a real improvement in tackling fraud, or conversely, a diminution in the level of error that a simple consideration of the comparatives might suggest, although they generate a more accurate measure of the value of fraud in the system.

13. The value of the improved methodology will become evident in future years when the need to restate and, moreover, explain the restatement has passed and the focus can instead be on comparatives using the now more accurate and more comprehensive note of payment accuracy.

Continuously Measured Benefits: Income Support, Jobseeker's Allowance and Pensions Credit

14. Income Support, Jobseeker's Allowance and Pensions Credit are, with Housing Benefit, the benefits considered to face the highest risk of fraud and error and as such are subjected to a continuous rolling programme of checks by the Department. These checks seek to evaluate the extent of fraud and error, as well as provide valuable information on control compliance and operations effectiveness for management. This checking process is itself subject to an internal validation procedure, which in turn is scrutinised by the National Audit Office.

15. The published fraud and error overpayment estimates for Income Support (£560 million), Jobseekers Allowance (£180 million) and Pensions Credit (£290 million) that are disclosed in the accounts are based on error rates relating to the period 1 October 2003 to 30 September 2004 applied against 2004-05 expenditure. These figures suggest that in percentage terms the Department is reducing the overall reported levels of fraud

and error across all these continuously measured benefits. This said, and contrary to the general trend, official error rates (one aspect of the overall total) for Pension Credit do appear to be rising. It is my understanding that more up to date analysis covering the full year period 2004-05 will be available in the near future.

Other Continuously Measured Benefits: Housing Benefit

16. The equivalent continuous review for Housing Benefit indicates that an estimated £640 million was overpaid, which in percentage terms is in line with the equivalent estimate reported last year (similarly to the benefit discussed in paragraph 15, this figure is based on error rates relating to the period 1 October 2003 to 30 September 2004 applied against 2004-05 expenditure, but also includes small adjustments to published National Statistics for the purposes of estimating this global figure). Housing Benefit is paid by local authorities and subsidised by the Department and as a result the methodology for estimating fraud and error differs from that used for the other continuously measured benefits. The statistical uncertainties relating to this methodology are greater than those relating to other continuously measured benefits, due to the relatively smaller sample size used, but this does not undermine the overall conclusion that the levels of fraud and error remain broadly stable.

The National Benefit Review of Disability Living Allowance

17. In July 2005 the Department concluded a National Benefit Review relating to Disability Living Allowance (DLA), which updated a previous exercise carried out in 1996. The review considered the various categories of possible fraud and customer error that result from inaccurate assessments of customer needs. DLA is paid on the basis of care needs.

18. In particular, the review made a distinction between cases where customers could be reasonably expected to recognise changes in their care needs and cases where the changes in circumstance were so gradual that it would be unreasonable for customers to recognise the potential impact. This distinction was important because it created a new classification of cases where the information from the customer may have differed if their case had been reviewed, but at the time of payment the customer was not deemed at fault in not recognising their change of circumstance. The resulting payments are therefore in excess of entitlement, but nonetheless procedurally correct. For this reason when estimating the overall value the Department concluded that these amounts should be excluded from the global total of fraud and error overpayment because procedurally the payments remained correct until reviewed and deemed otherwise. This decision effectively introduced a new category which the Department considered as neither fraud nor error, but was nonetheless recognised in the payment accuracy note as money paid out that customers would not have been entitled to if their cases had been re-assessed.

19. The Review estimated the value of such cases to be £580 million and a separate exercise considering the interdependencies between DLA and other benefits suggested a further £120 million of overpayments. The total value of £0.7 billion, which whilst noted in the payment accuracy note to the accounts, is not included in the £2.6 billion global fraud and error estimate. The equivalent estimate for 2003-04 of around £0.6 billion also is not included in the re-stated figures for that year.

20. Considering this change in the wider context of clarifying or removing the longstanding qualification on these accounts I believe the National Benefit Review of DLA illustrates how complexity in some benefit programmes can lead directly to overpayment. I welcome the Department's efforts to clarify and to continue to report such matters in the accounts and thereby focus attention on those aspects of fraud and error that can be reasonably addressed.

21. In this particular instance the critical issue is what is a reasonable interpretation of the Department's duty to reassess DLA entitlement. Regular reviews would undoubtedly reduce the current estimate of payments made in excess of entitlement, but this must be balanced against the cost of undertaking such assessments and the disruption and possible distress to the many DLA clients where no reduction in entitlement would actually result. These are matters I intend to take forward with the Department as part of my on-going rollout of an enhanced financial audit strategy. The transparency of such issues being central to understanding and identifying solutions to those aspects of complexity in the benefit system, which I have long maintained are the main cause of the repeated qualification.

Other National Benefit Reviews and Annual Reviews: Retirement Pension, Incapacity Benefit and Carer's Allowance

22. There were no other National Benefit Reviews concluded in 2004-05, although a pilot review focussing on Retirement Pension is currently in progress. My staff will consider the methodology applied to this review and I will comment on this exercise, as appropriate, in my report to the 2005-06 Resource Accounts.

23. Previous reviews relating to Retirement Pension, Incapacity Benefit and Carer's Allowance have generated fraud and error figures, which have been re-visited for the 2004-05 estimation exercise. The

methodology applied is broadly consistent with previous years, although some statistical enhancement of the originating estimates resulted in a small reduction in the current estimate of fraud for these benefits. Similarly the official error figure relating to Carer's Allowance was also reduced. Both adjustments only have a marginal impact on the overall reported figures for 2004-05.

24. A final element of the fraud estimate that is captured by periodic reviews relates to Instrument of Payment fraud (for example, stolen order books). This has led to a welcome reduction from £70 million to £40 million following changes in working practice that directly reduce, and were intended to reduce, the risk of such frauds. The Department has as a consequence reassessed the methodology applied in determining this figure.

Other Fraud and Error Data

25. Where data is not available through continuous measurement, snapshot reviews or other periodic reviews, assessments are made by statisticians that draw on historic data. For the majority of unreviewed benefit types an assumed fraud and error rate of 2.7% is applied as the best available estimate. Until 2004-05 this category included Council Tax Benefit, but the Department now considers this to be more closely aligned to fraud and error rates for Housing Benefit and on this basis the Housing Benefit fraud and error rates have been applied to Council Tax benefit.

Conclusion

26. Because of the varying nature and timing of the exercises undertaken to produce the fraud and error estimate it is not possible to consider it as a precise measure, but it is the best estimate available at present. The £2.6 billion estimate of fraud and error that results represents some 2.2 per cent of the £118.7 billion of net expenditure. This in my view is a material sum and I have therefore qualified my audit opinion on the account.

27. I have now qualified the Department's account and those of its predecessors for the past 16 years because of the scale of fraud and error in benefit expenditure. The improved accuracy and enhanced disclosure noted in the 2004-05 accounts represents a positive step in improving the transparency of the underlying problems. This point is well illustrated by the now separate disclosure of DLA and related entitlements which were legitimately paid to customers, but would not have been if their cases had been re-assessed.

Contributory and Non Contributory Benefit Customer Overpayment Debtors (£1,254 million)

28. Overpayments to customers arise from fraud and error by customers and from errors by officials. These are identified by staff in local offices and referred to Debt Centres for confirmation of the existence of a debt and its valuation and recovery.

29. Debt Centres record overpayments on systems that in the majority of individual cases do not provide a satisfactory audit trail from the original valuation of the debt through subsequent recoveries. Therefore it is not possible to confirm the existence and valuation of a significant number of customer overpayment debts. The Department is currently implementing a new debt management and accounting system which is intended to produce robust audit trails. The Department expects to complete the migration of existing data on debt to the new system by January 2006.

30. As in previous years I have concerns about the completeness of customer overpayment debt. This is because at the year-end not all benefit overpayments have been identified, some overpayments have been identified but not referred to Debt Centres for recovery and others have been referred but await input to the debt recovery systems. This suggests that the figure in the accounts for customer overpayment debtors could be significantly understated.

31. As there remains significant uncertainty over the completeness, existence and accuracy of the £1,254 million recorded in the account for benefit overpayment debtors, I have qualified my audit opinion.

32. Looking forward to 2005-06, my staff are working with the Department on a number of initiatives to assist the Department in its efforts to account for all relevant customer overpayment debts and provide a robust audit trail to individual transactions. This includes joint working with Internal Assurance Services to determine the extent of debt which has been identified but has not been referred to Debt Management for appropriate action as well as a proposed detailed review of the new debt management and accounting system.

Other Social Fund debtors (£625 million)

33. The Department administers Social Fund awards and repayments through its network of Jobcentre Plus offices. These are accounted for separately in the Social Fund White Paper Account and are also included in the Department's Resource Account on consolidation.

34. Following certification of the Department's Resource Account in December 2004, evidence came to light which limited the scope of my audit of Social Fund awards and repayments. To this end, I qualified my opinion

on the 2003-04 Social Fund White Paper Account in June 2005 because I was unable to confirm that the Department had maintained proper accounting records for certain Social Fund transactions and that I had received all the information and explanations I required for my audit.

35. Whilst this year the Department has been very successful in bringing forward the completion of the Social Fund White Paper Account, so I can consider its audit findings in conjunction with the Resource Account, I have for the same reasons as in 2003-04 qualified my opinion on the 2004-05 Social Fund White Paper Account. Evidence made available by the Department to support amounts recorded in the account for Budgeting Loans (£460 million), and Crisis Loans (£165 million) was limited to a significant degree and as these amounts generate debtor balances significant to the Department's Resource Account I am obliged to qualify my audit opinion on the Departmental Resource Account in this respect. Further details are available on my report on the 2004-05 Social Fund White Paper Account. This account, together with my certificate and report, was laid before Parliament on 29 November 2005 (HC ref.724).

Excess Vote

36. In 2004-05, the Department expended more resources than Parliament had authorised. By doing so, the Department breached Parliament's control of expenditure and incurred what is termed an "excess" for which further parliamentary authority is required. I have qualified my opinion on the Department's 2004-05 Resource Accounts in this regard. The purpose of paragraphs 37 to 45 of the report is to explain the reasons for the qualification and to provide information on the extent and nature of the breach to inform Parliament's further consideration.

37. As part of my audit of the Department's financial statements, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the Resource Accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them; that is, they are "regular". In doing so, I have had regard to Parliamentary authority and in particular the Supply limits Parliament has set on expenditure. By incurring expenditure that is unauthorised and is thus not regular, the Department have breached Parliament's controls.

38. Parliament authorises and sets limits on departmental expenditure on two bases - 'resources' and 'cash'. Such amounts are set out in Supply Estimates for which Parliament's approval and authority is given in annual Appropriation Acts.

39. By this means, Parliament has authorised Requests for Resources for the Department. It thereby authorises amounts for current (rather than capital) expenditure, which are net of forecast income known as operating Appropriations in Aid. Parliament sets limits on the amount of operating Appropriations in Aid that can be applied towards meeting expenditure. The amounts authorised for Requests for Resources and Appropriations in Aid together represent a limit on the gross current expenditure that may be incurred under each Request for Resources.

40. The limits described above for the Department were set out in the Main Supply Estimate for 2004-05 (HC 466), as amended by the Winter and Spring Supplementary Estimates (HC 1234/325). The limit for Request for Resources 2 was set at net expenditure of £34,980,415,000 together with a limit on Appropriations in Aid of £1,564,698,000. These limits were authorised in the Appropriation Acts 2004 and 2005. The breaches reported below are against these limits.

41. Schedule 1 to the accounts shows net expenditure on Request for Resources 2 of £35,168,572,000, which is £188,157,000 (0.54 per cent) in excess of the amount authorised. Operating income authorised to be appropriated in aid of expenditure on this Request for Resources was limited to £1,564,698,000. Income earned and applied fell short of this limit by £146,624,000 and gross expenditure was £41,533,000 greater than authorised, resulting in the excess of £188,157,000. It is proposed to ask Parliament to authorise £188,157,000 as additional use of resources by an Excess Vote.

42. The Excess Vote was primarily due to a shortfall in receipts in respect of Income Support, and an overspend on expenditure within Housing Benefits.

43. The shortfall in Income Support receipts was primarily in respect of an over-estimation of recoveries by the Child Support Agency of maintenance payments from non-resident parents where the parent with care receives their Income Support gross. The estimation of recoveries was based upon expected improvements in processing times and case compliance following the introduction in March 2003 of Child Support Reforms. However, the CSA have continued to face many problems and both the processing times and compliance have not yet improved to the degree anticipated, hence the estimates made in respect of recoveries were too high.

44. The under-estimate of Housing Benefit expenditure was principally due to an increase of subsidy costs in respect of benefit paid by local authorities to those classified as temporarily homeless (non-HRA Rent Rebate). This was in turn due to an increased use by local authorities of higher rental leased accommodation rather than

bed and breakfast accommodation. This resulted in an increase of 60% in this type of expenditure which had not been anticipated by the Department.

45. As the primary factors contributing to the Excess Vote are demand-led, and in the case of Housing Benefits subject to local authority policy, the Department does not consider there to be significant weaknesses in its own internal controls which contributed to the Excess Vote arising. As a result, the Excess Vote has not been referred to by the Accounting Officer in his Statement on Internal Control. However, I believe that there remains some merit in a reassessment of the current control environment, particularly in respect of the inter-relationship between the Department and local authorities, in order that any changes to the design and operation of controls can be implemented as necessary to ensure that the risk of a further occurrence of an excess vote is managed.

Missing Case Papers

46. In order to verify the estimates in the error rates relating to Incapacity Benefit in 2003-04 the National Audit Office sought to examine an independent sample of 800 Incapacity Benefit cases to check that eligibility conditions were met and that accurate payments had been made. The absence of this evidence from 106 cases which could not be located at the time was a significant limitation on the scope of the audit and I qualified my audit opinion to reflect this.

47. In the current year, I have considered the results of an exercise undertaken by the Department which sought to assess the level of missing cases across all benefits in 2004-05, based on the work undertaken by its Performance Measurement Unit. This generated an overall missing case figure of just under 1% of cases selected for review.

48. The National Audit Office confirmed the robustness of the underlying database supporting these figures, and is satisfied that the proportion of missing cases across all significant benefits in 2004-05 is within tolerable levels. Hence, I have been able to remove this qualification in 2004-05.

49. However, in respect of certain grants and loans administered under the Social Fund White Paper and consolidated into the resource account, levels of missing cases were significant enough to warrant a limitation on the scope of the separate audit opinion for the Social Fund White Paper Accounts. This account, together with my certificate and report, was laid before Parliament on 29 November 2005 (HC ref.724). Whilst the amounts concerned are not material to the expenditure of the Resource Accounts they do indicate that missing case files remain a significant concern and in the case of loans (see earlier paragraph 33 to 35) they did prove material to the balance sheet of the Resource Accounts.

50. The Department has recognised the weaknesses within the document retrieval process, including the management of the Department's document storage. Work is ongoing to improve these weaknesses including the re-tendering of the contract for the management of the storage facility, consolidating the service into a single store and introducing a standard storage and retrieval process supported by a modern IT system.

John Bourn
Comptroller and Auditor General

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

20 December 2005

SCHEDULE 1

Summary of Resource Outturn
for the year ended 31 March 2005

	2004-05 Estimate			2004-05 Outturn				Restated 2003-04
	Gross Expenditure 1	Appropriations in Aid (A in A) 2	Net Total 3	Gross Expenditure 4	Appropriations in Aid (A in A) 5	Net Total 6	Net Total Outturn Compared with Estimate Saving/ (excess) 7	Prior-year outturn 8
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1 Children	257,638	(196)	**257,442**	257,573	(196)	**257,377**	65	**249,236**
Request for Resources 2 Working Age	36,545,113	(1,564,698)	**34,980,415**	36,586,646	(1,418,074)	**35,168,572**	(188,157)	**32,972,320**
Request for Resources 3 Pensioners	10,203,796	(190,253)	**10,013,543**	10,180,640	(190,251)	**9,990,389**	23,154	**8,100,988**
Request for Resources 4 Disabled	13,395,203	(3,768)	**13,391,435**	13,254,509	(1,286)	**13,253,223**	138,212	**12,467,459**
Request for Resources 5 Modernisation	624,920	(184,313)	**440,607**	576,839	(184,313)	**392,526**	48,081	**681,880**
Request for Resources 6 Corporate Services	2,067,780	(661,831)	**1,405,949**	2,043,029	(652,003)	**1,391,026**	14,923	**988,839**
Total Resources	**63,094,450**	**(2,605,059)**	**60,489,391**	**62,899,236**	**(2,446,123)**	**60,453,113**	**36,278**	**55,460,722**
Non-Operating Cost A in A			**(16,601)**			**(7,518)**	**(9,083)**	**(143,375)**
Net Cash Requirement			**61,291,757**			**58,513,646**	**2,778,111**	**57,617,706**

Summary of income payable to the Consolidated Fund

In addition to Appropriations in Aid the following income relates to the Department and is payable to the Consolidated Fund:

		Forecast 2004-05		Outturn 2004-05	
		Income	Receipts	Income	Receipts
	Note	£000	£000	£000	£000
Total	9	18,532	*18,532*	45,690	*45,690*

Explanation of the variation between Estimate and Outturn (Net Total Resources):

The RAM requires variances in excess of 10% or £500K (whichever is greater) to be explained for each line within an RfR and for individual components of the Resource to Cash reconciliation. Due to the number of individual lines within the estimate, the Department has only provided details of significant variances by RfR which are set out below.

RfR2 - Comparison of the estimate and outturn for 2004-05 has resulted in an excess vote on RfR2. Details are included within the results for the year in the Operating and Financial Review on page 9.
RfR5 - The Spring Supplementary Estimate forecast was based upon the projects' work plans at the time the forecast was prepared. These had been rigorously scrutinised to ensure deliverability and accuracy of forecast. External factors, such as supplier capability, resulted in expenditure being lower than was planned in the last quarter of the financial year providing insufficient time for projects to recover the position before year end.

Reconciliation of Resources to Net Cash Requirement

	2004-05 Estimate *Net Total*		Outturn *Net Total*	*Net Total Outturn compared with Estimate Savings/ (excess)*	Restated 2003-04 *Prior Year Outturn*
	£000	Note	£000	£000	£000
Net Total Resources	**60,489,391**	13	**60,453,113**	**36,278**	**55,460,722**
Capital:					
Acquisition of fixed assets	**303,363**	19	**297,338**	**6,025**	**328,600**
Investments	—		—	—	—
Non-Operating Cost A in A:					
Proceeds of fixed asset disposals	**(16,601)**	10	**(7,518)**	**(9,083)**	**(143,375)**
Accruals adjustments:					
Non-cash items	**(406,559)**	5	**(400,412)**	**(6,147)**	**(184,990)**
Changes in working capital other than cash	**891,542**	23	**(1,879,562)**	**2,771,104**	**2,392,023**
Changes in creditors falling due after more than one year	—		**(8,114)**	**8,114**	**(274,389)**
Use of provisions	**30,621**		**58,801**	**(28,180)**	**39,115**
Net Cash Requirement (Schedule 4)	**61,291,757**		**58,513,646**	**2,778,111**	**57,617,706**

Schedule 1 is not directly comparable to Schedule 2 (Operating Cost Statement) and Schedule 5 (Resources by Departmental Aim and Objectives) due to the fact that:

- Schedule 1 only includes Supply expenditure and Schedule 2 comprises both Supply and non-Supply expenditure.
- Financing received from the National Insurance Fund in respect of administration costs for the delivery of contributory benefits is treated as A-in-A within the Estimate and Schedule 1 but as financing via the General Fund within the Resource Accounts.
- Total Social Fund expenditure is consolidated within Schedule 2 whereas the cash grant element only is included in Schedule 1.
- The administration cost expenditure within each RfR in Schedule 2 reflects the full cost of those RfRs, whereas in Schedule 1 each RfR reflects the direct costs borne by that RfR.
- The request for resources are not directly comparable to objectives. Administration expenditure in Schedule 5 has been apportioned based on staff numbers for objectives 1 to 4, whilst objective 5 agrees to RfR 5 in Schedule 2.

Request for Resources:

Request for Resources 1: Ensuring the best start for all children, ending child poverty in 20 years.
Request for Resources 2: Promoting work as the best form of welfare for people of working age, whilst protecting the position of those in greatest need.
Request for Resources 3: Combating poverty and promoting security and independence in retirement for today's and tomorrow's pensioners.
Request for Resources 4: Improving the rights and opportunities for disabled people in a fair and inclusive society.
Request for Resources 5: Modernising welfare delivery so as to improve the accessibility, accuracy and value for money of services to customers, including employers.
Request for Resources 6: Corporate contracts and support services.

The notes on pages 35 to 91 form part of these accounts.

SCHEDULE 2

Consolidated Operating Cost Statement
for the year ended 31 March 2005

	Note	2004-05 £000	2004-05 £000	Restated 2003-04 £000	Restated 2003-04 £000
Administration Costs					
Request for Resources 1 (Children)					
Staff Costs		220,988		217,538	
Non-Staff administration costs		104,805		107,453	
Operating income		(199)		(115)	
			325,594		324,876
Request for Resources 2 (Working Age)					
Staff Costs		1,963,777		1,868,940	
Non-Staff administration costs		1,701,569		1,657,447	
Operating income		(99,258)		(64,604)	
			3,566,088		3,461,783
Request for Resources 3 (Pensioners)					
Staff Costs		382,859		388,043	
Non-Staff administration costs		758,615		439,782	
Operating income		(3,132)		(1,928)	
			1,138,342		825,897
Request for Resources 4 (Disabled)					
Staff Costs		137,699		138,767	
Non-Staff administration costs		102,082		45,996	
Operating income		(686)		(1,832)	
			239,095		182,931
Request for Resources 5 (Modernisation)					
Staff Costs		69,802		80,227	
Non-Staff administration costs		517,810		890,166	
Operating income		(54)		(2,006)	
			587,558		968,387
Request for Resources 6 (Corporate Services)					
Staff Costs		334,994		281,031	
Non-Staff administration costs		276,889		202,339	
Operating income		(38,987)		(69,123)	
			572,896		414,427
Net Administration Costs			**6,429,573**		**6,178,121**
Programme Costs					
Request for Resources 2 (Working Age)					
Expenditure		33,446,779		31,324,706	
Income		(730,081)		(781,060)	
			32,716,698		30,543,646
Request for Resources 3 (Pensioners)					
Expenditure		9,385,702		7,683,616	
Income		—		—	
			9,385,702		7,683,616
Request for Resources 4 (Disabled)					
Expenditure		13,086,722		12,296,173	
Income		(600)		(594)	
			13,086,122		12,295,579
National Insurance Benefits and Non-Voted Expenditure					
Expenditure		57,044,202		54,933,123	
Income		(1,897)		(1,400)	
	12b		57,042,305		54,931,723

Net Programme Costs	8	**112,230,827**	**105,454,564**
Net Operating Cost		**118,660,400**	**111,632,685**
Net Resource Outturn	13	**60,453,113**	**55,460,722**

All income and expenditure is derived from continuing operations.

Statement of Recognised Gains and Losses
for the year ended 31 March 2005

	Note	2004-05 £000	Restated 2003-04 £000
Net gain on revaluation of tangible fixed assets		6,916	950
Net (loss) on revaluation of investments	22	(375)	(188)
Prior year adjustment		—	4,333
Pension fund actuarial (losses)/gains	30	(6,715)	1,900
Increase to provision arising on actuarial valuation of pensions by analogy		—	(83)
Recognised gains and losses for the year		**(174)**	**6,912**

The notes on pages 35 to 91 form part of these accounts.

SCHEDULE 3

Balance Sheet
As at 31 March 2005

	Note	31 March 2005 £000	31 March 2005 £000	Restated 31 March 2004 £000	Restated 31 March 2004 £000
Fixed Assets					
Tangible assets	20	741,153		608,697	
Intangible assets	21	25,788		703	
Investments	22	214		589	
			767,155		609,989
Debtors falling due after more than one year	25		998,535		951,761
Current Assets					
Stocks and Work in progress	24	1,620		2,255	
Debtors	25	2,569,633		2,463,803	
Cash with paying agents		—		673,289	
Cash at bank and in hand	26	668,933		169,629	
		3,240,186		3,308,976	
Current Liabilities					
Creditors (amounts falling due within one year)	27	(4,600,369)		(3,606,044)	
Net Current Liabilities			(1,360,183)		(297,068)
Total Assets less Current Liabilities			405,507		1,264,682
Creditors (amounts falling due after more than one year)	27	(340,120)		(274,399)	
Provision for Liabilities and Charges	29	(351,161)		(164,772)	
			(691,281)		(439,171)
			(285,774)		**825,511**
Taxpayers' Equity					
General Fund	31		(295,312)		820,701
Revaluation Reserve	32		9,501		4,756
Government Grant Reserve	32		37		54
			(285,774)		**825,511**

Richard Mottram
Accounting Officer

11 November 2005

The notes on pages 35 to 91 form part of these accounts.

SCHEDULE 4

Cash Flow Statement
for the year ended 31 March 2005

	Note	2004-05 £000	Restated 2003-04 £000
Net cash outflow from operating activities (Note i)		(117,310,942)	(111,973,137)
Capital expenditure and financial investment (Note ii)		(242,459)	(217,277)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		45,629	24,069
Payments of amounts due to the Consolidated Fund		(93,293)	(30,260)
Net financing from the Consolidated Fund (Note iii)		59,060,551	57,594,895
Financing from the Contingencies Fund (Note iii)		—	—
Financing from the National Insurance Fund (Note iii)	31	59,039,460	54,634,893
Other		358	—
Increase in cash in the period	26	**499,304**	**33,183**

	Note	2004-05 £000	Restated 2003-04 £000
Note i: Reconciliation of operating cost to operating cash flows			
Net operating cost		(118,660,400)	(111,632,685)
Adjustments for non-cash transactions	7	392,155	186,450
Adjustments for movements in working capital other than cash	23	1,007,990	(762,176)
Adjustments for movements in long-term creditors		8,114	274,389
Use of provisions		(58,801)	(39,115)
Net cash outflow from operating activities		**(117,310,942)**	**(111,973,137)**
Note ii: Analysis of capital expenditure and financial investment			
Intangible fixed asset additions	21	(26,084)	(738)
Tangible fixed asset additions	20f	(219,354)	(319,914)
Proceeds from disposal of fixed assets	10	2,979	103,375
Net cash outflow from investing activities		**(242,459)**	**(217,277)**
Note iii: Analysis of financing and reconciliation to the net cash requirement			
Financing from the Consolidated Fund (Supply) current year[1]	31	59,060,551	57,594,362
Financing from the Consolidated Fund (Supply) prior year	31	—	533
		59,060,551	**57,594,895**
Advances from the Contingencies Fund		797	2,500,000
Repayments to the Contingencies Fund		(797)	(2,500,000)
Financing from the National Insurance Fund	31	59,039,460	54,634,893
Net financing		**118,100,011**	**112,229,788**
(Increase) in cash	26	(499,304)	(33,183)
Net cash flows other than financing		**117,600,707**	**112,196,605**
Adjustments for payments and receipts not related to Supply:			
Amounts due to the Consolidated Fund — CFERs received in a prior year and paid over		(67,928)	(11,935)
Amounts due to the Consolidated Fund — CFERs received and not paid over		20,273	7,798
Amounts due to the Consolidated Fund — Excess A in A		54	60,131
National Insurance Fund financed activities — receipts	31	(59,039,460)	(54,634,893)
Net Cash Requirement (Schedule 1)		**58,513,646**	**57,617,706**

[1] Amount of grant actually issued to support net cash requirement = £59,065,840,497.44 (2003-04 £54,420,418,000.00)

The notes on pages 35 to 91 form part of these accounts.

SCHEDULE 5

Resources by Departmental Aim and Objectives
for the year ended 31 March 2005

Aim: The Department's aim is to promote opportunity and independence for all.

	2004-05				
	Gross	Programme Income	Net	Administration Net	Total Net
	£000	£000	£000	£000	£000
Objective 1 To ensure the best start for all children and end child poverty by 2020.	3,670,102	(42,052)	3,628,050	357,965	3,986,015
Objective 2 To promote work as the best form of welfare for people of working age, whilst protecting the position of those in greatest need.	28,794,363	(145,789)	28,648,574	3,944,624	32,593,198
Objective 3 To combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners.	66,075,527	(34)	66,075,493	1,247,171	67,322,664
Objective 4 To improve rights and opportunities for disabled people in a fair and inclusive society.	13,879,310	(600)	13,878,710	292,255	14,170,965
Objective 5 To modernise welfare delivery so as to improve the accessibility, accuracy and value for money of services to customers, including employers.	—	—	—	587,558	587,558
Net operating costs	**112,419,302**	**(188,475)**	**112,230,827**	**6,429,573**	**118,660,400**

	Gross	Programme Income	Restated 2003-04 Net	Administration Net	Total Net
	£000	£000	£000	£000	£000
Objective 1 To ensure the best start for all children and end child poverty by 2020.	5,120,234	(142,894)	4,977,340	348,623	5,325,963
Objective 2 To promote work as the best form of welfare for people of working age, whilst protecting the position of those in greatest need.	27,783,059	(42,415)	27,740,644	3,741,156	31,481,800
Objective 3 To combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners.	59,656,683	(71)	59,656,612	885,062	60,541,674
Objective 4 To improve rights and opportunities for disabled people in a fair and inclusive society.	13,080,562	(594)	13,079,968	234,893	13,314,861
Objective 5 To modernise welfare delivery so as to improve the accessibility, accuracy and value for money of services to customers, including employers.	—	—	—	968,387	968,387
Net Operating Costs	**105,640,538**	**(185,974)**	**105,454,564**	**6,178,121**	**111,632,685**

See Note 33 for further information on Schedule 5.

The notes on pages 35 to 91 form part of these accounts.

Notes to the Accounts

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2004-05 *Resource Accounting Manual (RAM)* issued by HM Treasury. The accounting policies contained in the *RAM* follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the Public Sector. Where the *RAM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets and stocks where material, at their value to the business, by reference to their current cost.

The transfer of functions following Machinery of Government changes has been accounted for using the principles of merger accounting, which effectively apply the transfers from 1 April 2004. Comparative figures have been restated to reflect the new structure of the Department.

1.2 Basis of Consolidation

These accounts comprise a consolidation of the core Department, its Supply-financed Executive Agencies, certain Independent Statutory Bodies and the Health and Safety Commission and Executive (HSC/E). It also includes payment to the following bodies: Better Government for Older People, Motability, Independent Living Fund (ILF), the Occupational Pensions Regularity Authority (OPRA) and the Disability Rights Commission (DRC). Income and expenditure in relation to the Department's activities as an agent for the European Social Fund are also included within the consolidation.

A list of entities within the Departmental boundary is given at Note 45. Transactions between these entities are eliminated on consolidation.

Each Executive Agency, HSC/E and DRC produces its own annual report and accounts. A separate Client Fund account is prepared and published alongside the Child Support Agency's Annual Report and Accounts. Similarly, separate White Paper accounts are also produced for the Social Fund, National Insurance Fund, OPRA and PCB.

Social Fund expenditure is consolidated within Schedules 2 to 5 and the cash grant to the Social Fund is included in the Summary of Resource Outturn, Schedule 1.

Contribution receipts of the National Insurance Fund are excluded from the consolidation. However, certain elements of the National Insurance Fund are included in Schedules 2 to 5. These are contributory benefits funded from the National Insurance Fund and costs to the Department of their administration, together with amounts repaid by the Department to the Fund in respect of Statutory Sick Pay (SSP) and Statutory Maternity Pay (SMP) payments which have been deducted by employers from National Insurance Contributions. The contributory benefits are excluded from Schedule 1. Recoveries from the NIF in respect of administration costs are disclosed as Appropriations in Aid within Schedule 1. Both these recoveries and those in respect of Contributory Benefits are shown as financing in the General Fund. Any difference between contributory benefits paid and funding received from the NIF is recognised within various balances on the Balance Sheet which are summarised in Note 27e.

The Child Support Agency is responsible for recovering outstanding maintenance from non-resident parents. This includes amounts which, once recovered, will be repaid to the Secretary of State in respect of parents with care who are on benefits. The Departmental Resource Account excludes these amounts as they are legally due to the parent with care until the money is collected.

The CSA collects maintenance from non-resident parents in respect of parents with care who are receiving gross amounts of income support. Those receipts are accounted for as an A in A within the DWP Resource Account. The income is recognised when the Client Fund account makes the payment to the Department.

This consolidation boundary ensures that all items which fall within total social security expenditure are reflected in the Operating Cost Statement, whereas the Summary of Resource Outturn reflects only those items which fall within the Supply Procedure.

1.3 Estimation Techniques

The calculation of bad debt provisions differs depending on the type of benefit.

For contributory and non-contributory benefits, a forecast is made of the expected recoveries and the level of expected write-offs for the following ten years. From this forecast, a percentage is derived and applied to the total debt outstanding for the current year.

The percentage for Social Fund bad debt provisions is calculated by reference to the previous two years' write-offs compared to the debt outstanding for these years. This percentage is then applied to the total Social Fund debt outstanding for the current year.

The bad debt provision for the payments made by the Compensation Recovery Unit (CRU) is based on likely future write-offs and is calculated on a case by case basis.

For the Financial Assistance Scheme, an estimate is made being the Net Present Value of the likely assistance payments. The estimate is based on an actuarial model of likely caseload. The Department recognises that the basis of the estimate is subject to uncertainty and may need adjustment in a subsequent year of account once actual caseloads are known.

1.4 Tangible Fixed Assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount.

All computer hardware and software is treated as capital assets. For all other tangible assets the prescribed capitalisation level is £5,000, except for assets of HSC/E where it is £2,000. Where an item costs less than the capitalisation limit, but forms an integral part of a package whose total value is greater than the capitalisation level, then the item is treated as a capital asset. On initial recognition assets are measured at cost, including any costs such as installation directly attributable to bringing them into working condition.

For furniture and fittings, the total costs of maintaining a record of relatively low value individual items is considered to be prohibitive and therefore these items are recorded on a pooled basis.

Internally developed software is capitalised if it meets the criteria specified in the *RAM* which are adapted from SSAP 13 to take account of the not-for-profit context. Costs are classified as assets under construction until the asset is brought into service. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred.

All fixed assets, other than land and buildings, leasehold improvements, assets under construction and internally developed software are revalued by reference to appropriate HM Treasury approved indices.

Land and buildings are restated to current value using professional valuations in accordance with FRS 15 at least every five years and in the intervening years by use of published indices appropriate to the type of land or building.

Increases in value are credited to the revaluation reserve whilst decreases in value are debited to the revaluation reserve up to the level of depreciated historical cost for any asset previously revalued. Any excess devaluation is charged to the Operating Cost Statement along with devaluation on assets (such as computers) not previously revalued.

Each year, the realised element of the reserve (i.e. an amount equal to the excess of the actual depreciation over depreciation based on historical cost) is transferred from the reserve to the General Fund.

On disposal of a revalued asset, the balance on the revaluation reserve in respect of that asset becomes fully realised and is transferred to the General Fund.

1.5 Intangible Fixed Assets

In 2004-05, in accordance with FRS 10, the Department has reviewed its accounting policy in respect of capitalisation of expenditure on software licences. As a result of this review, expenditure on purchased computer software licences, covering a period of more than one year, is capitalised at cost as intangible fixed assets. Expenditure on annual software licences is charged to the Operating Cost Statement.

In view of the large number of software licences purchased across the Department, those capitalised are accounted for on a pooled basis with any items/pools amounting to over £100,000 identified individually. The licences are amortised over the shorter of the licence period or 5 years. Software licences are not revalued. As expenditure on software licences was immaterial, no prior year adjustment has been made.

1.6 Land and Buildings

The Department does not include in its Balance Sheet capital values for the freehold and leasehold land and buildings which it occupies under the Private sector Resource Initiative for Management of the Estate (PRIME) and Newcastle Estates Development (NED) contracts. In accordance with FRS 5 the contracts have been treated as an operating sale and leaseback, as the risks and rewards of ownership have been substantially transferred to the Contractor.

The Department has accounted for the deferred benefit which will result from reduced accommodation charges from the NED contract by establishing a prepayment which is released annually, over the 30 year period of the contract, to the Operating Cost Statement on a straight-line basis (see Note 25).

The Integration of Estates Services (TIES) contract was undertaken in December 2003 as an extension to the existing PRIME PFI contract with Land Securities Trillium, in order to incorporate the ex-Employment Service estate. Under the terms of the contract, the Department received total consideration of £140 million, £100 million of which was in cash with the remainder being established as a prepayment to be released annually over the remainder of the contract term which expires 31 March 2018 (see Note 25).

In accordance with FRS 18, the Department has reviewed its accounting policy in respect of the capitalisation of expenditure on improvements to leasehold properties. As a result expenditure in respect of major capital refurbishment and improvement of properties occupied but not owned by the Department is capitalised and reported under Leasehold Improvements (see Note 20). This is appropriate because the expenditure provides a long-term continuing benefit for the Department. This also applies to properties occupied under the TIES contract.

Health and Safety Commission and Executive

Land and buildings are valued on an existing use basis except for the specialist laboratory site which has been included at depreciated replacement cost. The respective values of all freehold properties, and only those leasehold properties that qualify as finance leases, are included in the balance sheet.

A contract was undertaken by the Health and Safety Laboratory in October 2004 with ICB Ltd for laboratory and support functions. This is accounted for as an on-balance sheet contract. Under the terms of the contract, the Department received total consideration of £5.7 million, £1.2 million of which was in cash with the remainder being established as a prepayment to be released annually over the remainder of the contract term (see Note 25).

1.7 Depreciation

Freehold land is not depreciated.

Depreciation is provided on freehold buildings and all other tangible fixed assets, using the straight-line method, at rates calculated to write off the current replacement cost (less any estimated residual value) of each asset, in equal instalments over its expected useful life. Fixed assets are depreciated from the month following acquisition. No depreciation is charged in the month of disposal. Assets in the course of construction are not depreciated until the asset is brought into use.

Tangible fixed assets are depreciated over the following estimated useful lives:

Freehold Buildings	up to 50 years
Leasehold Buildings	period remaining on lease
Leasehold Improvements	10 years (or period remaining on lease if less than 10 years)
Information Technology	3 to 5 years
Software Development	5 years
Plant and Machinery	5 to 10 years
Furniture and Fittings	7 to 15 years
Motor Vehicles	4 to 7 years

For vehicles acquired by the Health and Safety Executive car-leasing scheme, 60% of the original cost is depreciated over the three-year life of the contract.

1.8 Investments

Financial interests in bodies which are outside the Departmental boundary are treated as fixed-asset investments since they are held for the long term.

At the balance sheet date, the shareholding in the joint venture Working Links (Employment) Ltd was held by the Office of the Secretary of State for Work and Pensions, with the Jobcentre Plus Chief Executive as the nominee shareholder. The company is operated and managed independently from the Department, and its accounts are not consolidated with those of the Department. Dividends are included within Operating Income. The investment is valued at the Jobcentre Plus one-third share of the net assets (or Nil in the case of net liabilities) as disclosed in the Company's accounts for the year ending 31 March 2005 (see Note 22).

1.9 Stocks and Work in Progress

Stocks and work in progress are valued as follows:

- goods for resale are valued at cost or, where materially different, current replacement cost and at net realisable value only when they cannot or will not be used; and
- work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value.

The Department also holds stocks of stationery, free publications, computer spares and similar consumable materials. Due to the nature of these items the Department does not consider it appropriate to reflect their value in the Balance Sheet. Accordingly, with the exception of HSE, the Department charges all expenditure on consumable items to the Operating Cost Statement.

1.10 Research and Development

Expenditure on research is written off in the year in which it is incurred.

1.11 Operating Income

Operating income is income which relates directly to the operating activities of the Department. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work; but it also includes other income such as that from investments. It includes both income appropriated in aid of the Estimate but also income to the Consolidated Fund which in accordance with the *RAM* is treated as operating income (see Note 10). Operating income is stated net of VAT.

1.12 Administration and Programme Expenditure

The Operating Cost Statement is analysed between administration and programme costs.

Administration costs reflect the costs of running the Department. These include both administrative costs and associated income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

Programme costs include programme expenditure, programme overheads and non-administration costs, including payments of grants and other disbursements by the Department.

In respect of grants, a liability arises when the grant recipient carries out the specific activity which forms the basis of the entitlement, or otherwise meets the grant entitlement criteria.

Programme expenditure comprises statutory payments including contributory benefit expenditure which is funded from the National Insurance Fund and expenditure which is borne by the Social Fund, in addition to the programme expenditure which is within the Supply Process. The classification of expenditure and income as administration or as programme follows the definitions set by HM Treasury.

Programme overheads consist of provisions, programme bad debts written off and capital charges on programme related net assets.

1.13 Special Aids to Employment

Since June 1996, Jobcentre Plus (formerly the Employment Service) has paid grants towards the cost of equipment for disabled people which is procured by employers. This is charged to expenditure in the year the equipment is purchased.

1.14 Capital Charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5% - 2003-04 3.5%) on the average carrying amount of all assets less liabilities, except for:

- intra departmental balances;
- cash balances with the Office of HM Paymaster General (OPG), where the charge is nil; and
- assets and liabilities in respect of amounts due from, or due to be surrendered to, the Consolidated Fund where the charge will be at a nil rate.

The capital charge is split between administration costs (see Note 6) and programme overheads (see Note 15) in accordance with the relative proportions of net assets.

1.15 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), details of which are described in Note 3. The defined benefit schemes are unfunded and are non-contributory except in respect of dependent's benefits. The Department recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. Departments meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. In respect of the Defined Contribution Schemes, the Department recognises the contributions payable for the year. There is a separate scheme statement for the PCSPS as a whole. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk).

The current Chairman of the Health and Safety Commission is not a member of the PCSPS but arrangements exist whereby HSE make pension payments analogous to those that would have been made if he had been a member of the PCSPS and are payable out of the current year's funds that are made available. The appointment of Commission members is non-pensionable.

A small number of the Department's staff are members of the Local Government Pension Scheme (LGPS). The LGPS is a funded multi-employer contributory defined benefit scheme. The London Pensions Fund Authority (LPFA) administers the LGPS on behalf of the Department. Every three years independent actuaries carry out a valuation of the pension fund and set the rate at which the Department must contribute to fully fund the payment of the Scheme benefits for the Fund's membership. The latest formal valuation of the LPFA was carried out as at 31 March 2004.

1.16 Early Departure Costs

The Department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding on the Department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 3.5 per cent in real terms. In past years the Department paid in advance some of its liability for early retirement by making a payment to the Paymaster General's Account at the Bank of England, for the credit of the Civil Service Superannuation Vote. The balance remaining is treated as a prepayment which is disclosed within administration debtors (see Note 25).

1.17 Foreign Exchange

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for the period is used.

1.18 Provisions

The Department provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cashflows are discounted using the real rate set by HM Treasury (currently 3.5%).

1.19 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of the transfer of economic benefit is remote. These comprise:

- items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the Department entering into the agreement; and
- all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the *RAM* to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed under FRS 12 are stated at the amounts reported to Parliament.

1.20 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the Department, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease.

Other leases are regarded as operating leases and the rentals are charged to the Operating Cost Statement on a straight-line basis over the term of the lease.

1.21 Private Finance Initiative (PFI) transactions

PFI transactions have been accounted for in accordance with Technical Note No. 1 (Revised) entitled *How to account for PFI transactions* as required by the *RAM*.

Where the balance of the risks and rewards of ownership of the PFI asset are borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the Department has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract. Where, at the end of the PFI contract, an asset reverts to the Department, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year.

Where the balance of risks and rewards of ownership of the PFI asset is borne by the Department, the asset is recognised as a fixed asset and the liability to pay for it is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

1.22 Value Added Tax

Most of the activities of the Department are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.23 Third-Party Assets

The Department's Child Support Agency holds, as custodian, certain monies belonging to third parties (see Note 43). These are not recognised in the accounts since neither the Department nor Government more generally has a direct beneficial interest in them.

2. Transfer of Functions and Restatements

Restatement of Balance Sheet and Operating Cost Statement at 31 March 2004

Balance Sheet	Published accounts at 31 March 2004	Functions transferred from ODPM	Restated at 31 March 2004
	£000	£000	£000
Fixed Assets			
Tangible fixed assets	599,663	9,034	608,697
Intangible assets	—	703	703
Investments	589	—	589
Debtors falling due after more than one year	951,754	7	951,761
Current Assets			
Stocks and Work in progress	2,255	—	2,255
Debtors	2,460,290	3,513	2,463,803
Cash with paying agents	673,289	—	673,289
Cash at bank and in hand	169,509	120	169,629
Creditors falling due within one year	(3,599,625)	(6,419)	(3,606,044)
Creditors falling due after more than one year	(274,225)	(174)	(274,399)
Provisions for liabilities and charges	(159,232)	(5,540)	(164,772)
Net Assets	**824,267**	**1,244**	**825,511**
Taxpayers Equity			
General Fund	819,691	1,010	820,701
Revaluation Reserve	4,522	234	4,756
Government Grant Reserve	54	—	54
	824,267	**1,244**	**825,511**
Operating Cost Statement			
Administration costs			
Staff costs	2,951,975	22,571	2,974,546
Other administration costs	3,325,905	17,278	3,343,183
Gross Administration costs	**6,277,880**	**39,849**	**6,317,729**
Operating income	(139,600)	(8)	(139,608)
Net Administration costs	**6,138,280**	**39,841**	**6,178,121**
Programme costs			
Expenditure	103,075,474	3,162,144	106,237,618
Income	(783,054)	—	(783,054)
Net Programme costs	**102,292,420**	**3,162,144**	**105,454,564**
Net Operating cost	**108,430,700**	**3,201,985**	**111,632,685**

Reported figures at 31 March 2004 have been restated due to The Rent Service transferring to the Department from the Office of the Deputy Prime Minister.

3. Staff Numbers and Related Costs

a. Staff costs

Staff costs consist of:

	Permanently employed staff	Others	Ministers	Special Advisers	Total	Restated 2003-04 Total
	£000	£000	£000	£000	£000	£000
Wages and salaries	2,524,940	75,920	336	114	2,601,310	**2,495,154**
Employer's National Insurance	175,613	1,412	31	13	177,069	**170,451**
Superannuation and Pension costs	331,669	71	–	–	331,740	**308,819**
Sub Total	**3,032,222**	**77,403**	**367**	**127**	**3,110,119**	**2,974,424**
Inward Secondments	–	–	–	–	–	122
Total	**3,032,222**	**77,403**	**367**	**127**	**3,110,119**	**2,974,546**
Less recoveries in respect of outward secondments	(10,278)	–	–	–	(10,278)	**(8,127)**
Total Net Costs	**3,021,944**	**77,403**	**367**	**127**	**3,099,841**	**2,966,419**

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Department is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-05, normal employers' contributions of £312.2 million were payable to the PCSPS (2003-04 £304.2 million) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will increase from 2005-06. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme. In addition, an amount of £1.8 million was payable in respect of the Local Government Pension Scheme (LGPS) contributions for staff employed by the Rent Service.

Outstanding contributions amounting to £7.5 million (2003-04 £0.9 million) were payable to the Civil Superannuation Vote at 31 March 2005 and are included in creditors (see Note 27).

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £464,181 (2003-04 £191,340) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent (2003-04: 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £10,389 (2003-04 £1,027), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

214 persons (2003-04 212 persons) retired on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £820,937 (2003-04 £1,013,533). These liabilities are not the responsibility of the Department but are to be paid by the Civil Superannuation Vote.

b. Average number of persons employed

The average number of whole-time equivalent persons employed during the year is shown in the table below. These figures include those working in the Core Department as well as in Agencies and other bodies included within the consolidated Departmental Resource Account.

			2004-05 Number			Restated 2003-04 Number
Objective	**Permanently employed staff**	**Others**	**Ministers**	**Special Advisers**	**Total**	**Total**
1 (Children)	9,943.0	1.0	–	–	9,944.0	11,140.0
2 (Work)	81,796.5	3,148.0	5.0	2.0	84,951.5	93,042.0
3 (Pensions)	17,784.0	16.0	1.0	–	17,801.0	21,035.5
4 (Disabled)	13,562.0	13.0	–	–	13,575.0	6,438.5
5 (Modernisation)	5,572.0	154.0	–	–	5,726.0	3,432.0
Total	**128,657.5**	**3,332.0**	**6.0**	**2.0**	**131,997.5**	**135,088.0**

As at 31 March 2005, 123,005.5 whole-time equivalent persons were employed by the Department.

Objective 1:
To ensure the best start for all children and end child poverty by 2020.

Objective 2:
To promote work as the best form of welfare for people of working age, whilst protecting the position of those in greatest need.

Objective 3:
To combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners.

Objective 4:
To improve rights and opportunities for disabled people in a fair and inclusive society.

Objective 5:
To modernise welfare delivery so as to improve the accessibility, accuracy and value for money of services to customers, including employers.

c. Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Ministers and most senior officials of the Department.

Remuneration

	2004-05		2003-04	
	Salary	Benefits in kind (to nearest £100) (Note [4])	Salary	Benefits in kind (to nearest £100) (Note [4])
Ministers	£		£	
Rt Hon Andrew Smith MP[1] *Secretary of State* (to 6 September 2004)	52,218	–	71,436	–
Rt Hon Alan Johnson MP[2] *Secretary of State* (from 6 September 2004)	41,376	–	–	–
Rt Hon Nick Brown MP *Minister of State* (to 13 June 2003)	–	–	6,176	–
Mr Des Browne MP *Minister of State* (to 1 April 2004)	–	–	27,792	–
Jane Kennedy MP *Minister of State* (from 3 April 2004)	34,878	–	–	–
Rt Hon Ian McCartney MP *Minister of State* (to 4 April 2003)	–	–	3,088	–
Malcolm Wicks MP *Minister of State*	37,806	–	34,824	–
Rt Hon Margaret Hodge MP MBE[3] *Minister of State* (from 9 September 2004)	–	–	–	–
Rt Hon Baroness Hollis of Heigham *Parliamentary Under Secretary of State*	97,553	–	94,100	–
Baroness Ashton of Upholland[3] *Parliamentary Under Secretary of State* (to 9 September 2004)	–	–	–	–
Maria Eagle MP *Parliamentary under Secretary of State*	28,698	–	28,128	–
Mr Chris Pond MP *Parliamentary under Secretary of State*	29,535	–	21,096	–

1 Figure quoted is for the period from 1 April to 6 September 2004. Included is a Net Severance payment of £18,343. The full year equivalent is £72,864.

2 Figure quoted is for the period from 6 September 2004 to 31 March 2005. The full year equivalent is £73,354.

3 Baroness Ashton's and Margaret Hodge's salary are met solely by the Department for Education and Skills.

4 None of the Department's Ministers received benefits in kind.

Officials	2004-05				2003-04
	Salary Including Bonus	Allowances and Taxable Expenses	Total	Full Year Equivalent	Total
	£000	£000	£000	£000	£000
Sir Richard Mottram * *Permanent Secretary*	195	—	195	195	183
Paul Gray* (to 1 September 2004)	57	—	57	121	127
Alan Woods (from 16 August 2004 to 12 November 2004)	27	—	27	105	—
Phil Wynn Owen (from 15 November 2004)	32	—	32	95	—
Ursula Brennan (to 7 April 2004)	10	—	10	118	125
Michael Richardson (from 8 April 2004 to 5 September 2004)	46	—	46	109	—
David Anderson	209	—	209	209	138
Alexis Cleveland	132	35	167	167	160
Doug Smith	118	28	146	146	160
Adam Sharples (from 6 September 2004)	57	—	57	115	—
John Codling	127	29	156	156	117
Kevin White	120	56	176	176	163
Joe Harley (from 28 July 2004)	135	16	151	223	—
Simon MacDowall (from 10 January 2005)	24	6	30	131	—
Paul Jenkins (from 10 January 2005)	26	—	26	109	—

* These members received taxable benefits in kind in relation to the use of chauffeur-driven cars. The amounts have yet to be determined but the Department is liaising with HM Revenue and Customs on this matter. No other members received benefits in kind.

John Cross was a members of the Executive Team and an Executive member of the Board to 28 July 2004. His fees for this period amounted to £62,000. From 29 July 2004 he reverted to his previous role as a Non-Executive Director for which his fees are disclosed at Note 3d.

Paul Gray became a Non-Executive Director from 23 September 2004 in respect of which he has been paid no fees.

The information given above relates to the Permanent Secretary and members of the Departmental Executive team. Equivalent information relating to any Board Members of Supply-financed agencies consolidated into the Departmental Resource Account is given in the separate Agency accounts.

Salary

Salaries quoted relate solely to the period during the year when the individuals concerned served on the DWP Executive Team.

“Salary” includes gross salary and performance pay or bonuses. “Allowances” include reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; reimbursement of rented accommodation costs; and any other allowances to the extent that they are subject to UK taxation.

This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£57,485, 2003-04 £55,118) and various allowances to which they are entitled are borne centrally. However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

Pension Benefits

Ministers	Real increase in pension at age 65	Total accrued pension at age 65 as at 31/03/05	CETV at 31/03/05	CETV at 31/03/04	Real increase in CETV
	£000	£000	£000	£000	£000
Rt Hon Andrew Smith MP *Secretary of State* (to 6 September 2004)	0–2.5	5–10	105	94	4
Rt Hon Alan Johnson MP *Secretary of State* (from 6 September 2004)	0–2.5	0–5	45	39	4
Jane Kennedy MP *Minister of State* (from 3 April 2004)	0–2.5	5–10	49	39	4
Malcolm Wicks MP *Minister of State*	0–2.5	0–5	49	37	6
Rt Hon Margaret Hodge MP MBE[1] *Minister of State* (from 9 September 2004)	–	–	–	–	–
Rt Hon Baroness Hollis of Heigham *Parliamentary Under Secretary of State*	0–2.5	10–15	154	124	14
Baroness Ashton of Upholland[1] *Parliamentary Under Secretary of State* (to 9 September 2004)	–	–	–	–	–
Maria Eagle MP *Parliamentary under Secretary of State*	0–2.5	0–5	22	15	3
Mr Chris Pond MP *Parliamentary under Secretary of State*	0–2.5	0–5	13	6	5

1 Pension details for Baroness Ashton and Margaret Hodge are disclosed in the accounts of the Department for Education and Skills.

Ministerial pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended). Those Ministers who are Members of Parliament are also entitled to an MP's pension under the PCPF. The arrangements for Ministers provide benefits on an 'average salary' basis with either a 1/50th or 1/40th accrual rate, taking account of all service as a Minister. (The accrual rate has been 1/40th since 15 July 2002 but Ministers, in common with all other members of the PCPF, can opt to increase their accrual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution).

As the House of Commons and House of Lords and not the Department meet the Exchequer contribution to the cost of pension provision for all Ministers, the pension details are included on a 'for information' basis only.

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on, or after, age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate, and 9% if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in the value of the CETV

This takes account of the increase in accrued pension due to inflation and contributions paid by the Minister and is calculated using common market valuation factors for the start and end of the period.

Officials	Real increase in pension and related lump sum at age 60	Accrued pension at age 60 as at 31/03/05 and related lump sum	CETV at 31/03/05	CETV at 31/03/04	Real Increase in CETV
	£000	£000	£000	£000	£000
Sir Richard Mottram *Permanent Secretary*	5–7.5 plus 15–17.5 lump sum	80–85 plus 250–255 lump sum	1,535	1,368	70
Paul Gray[1] (to 1 September 2004)	0–2.5 plus 0–2.5 lump sum	65–70	923	895	11
Alan Woods (from 16 August 2004 to 12 November 2004)	0–2.5 plus 5–7.5 lump sum	35–40 plus 105–110 lump sum	477	440	23
Phil Wynn Owen (from 15 November 2004)	0–2.5 plus 2.5–5 lump sum	25–30 plus 80–85 lump sum	347	326	18
Ursula Brennan (to 7 April 2004)	0–2.5 plus 0–2.5 lump sum	40–45 plus 120–125 lump sum	640	638	–
Michael Richardson (from 8 April 2004 to 5 September 2004)	2.5–5 plus 7.5–10 lump sum	45–50 plus 140–145 lump sum	899	837	51
David Anderson[1]	0–2.5 plus 0–2.5 lump sum	0–5	37	27	4
Alexis Cleveland	0–2.5 plus 5–7.5 lump sum	40–45 plus 120–125 lump sum	648	576	34
Doug Smith	–	55–60 plus 175–180 lump sum	1,052	1,005	–
Adam Sharples (from 6 September 2004)	2.5–5 plus 7.5–10 lump sum	35–40 plus 105–110 lump sum	577	507	40
John Codling	7.5–10 plus 22.5–25 lump sum	40–45 plus 130–135 lump sum	737	568	133
Kevin White	5–7.5 plus 2.5–5 lump sum	40–45 plus 120–125 lump sum	691	637	23
Joe Harley (from 28 July 2004)	0–2.5 plus 0–2.5 lump sum	0–5 plus 0–5 lump sum	29	–	25
Simon MacDowall[1] (from 10 January 2005)	0–2.5 plus 0–2.5 lump sum	5–10	111	106	–
Paul Jenkins (from 10 January 2005)	0–2.5 plus 0–2.5 lump sum	35–40 plus 110–115 lump sum	543	531	8

[1] Opted to join the Premium Scheme.

John Cross was a member of the Executive Team and an Executive Director of the Board until 28 July 2004, after which he reverted to his previous role of Non-Executive Director. There are no disclosures in respect of pensions as he was not employed as a permanent Civil Servant and was not, therefore, a member of the PCSPS.

None of the above opted to open a Partnership Pension Account.

Civil Service Pensions (CSP)

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based ‘final salary’ defined benefit schemes (Classic, Premium, and Classic Plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, and Classic Plus are increased annually in line with changes in the Retail Price Index. New entrants after 1 October 2002 may choose between membership of the Premium scheme or joining a good quality ‘money purchase’ stakeholder arrangement with a significant employer contribution (Partnership Pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for Classic and 3.5 per cent for Premium and Classic Plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years’ pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

The Partnership Pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003–04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own costs. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

d. Non-Executives

Fees paid to Non-Executive Board members amounting to £82,000 (2003-04 £76,000) were:

	2004-05 Total Fees	2003-04 Total Fees
	£000	£000
Bridget Rosewell	25	25
Graham Stow	20	20
John Cross[1] (from 29 July 2004)	17[1]	11
Michael Sommers	20	20
Paul Gray (from 23 September 2004)	—[2]	—

[1] From 1 April to 28 July 2004, John Cross was an Executive Member of the Board. His fees for this period are disclosed at Note 3c. From 29 July 2004, John Cross reverted to his position as Non-Executive Board member.

[2] Until 1 September 2004 Paul Gray was an Executive Member of the Board and a member of the Departmental Executive Team. His remuneration for the period to 1 September 2004 is disclosed at note 3c.

4. Non-Staff Administration Costs

	Note		2004-05		Restated 2003-04
			£000		£000
Goods and Services	4a		1,449,238		1,745,495
Accommodation costs			183,518		295,252
Rentals under operating leases:					
Hire of plant and machinery		9,739		8,053	
Other operating leases		10,796		9,780	
			20,535		17,833
Interest charges:					
Finance leases			—		6
PFI service charges:					
Off-balance sheet contracts		1,045,903		738,378	
Service element of on-balance sheet contracts		1,325		—	
			1,047,228		738,378
Audit fee for HSE	4b		83		84
Compensation payments to customers			8,283		6,885
Non-cash items	5		419,084		200,530
Other	4c		333,802		338,720
			3,461,771		**3,343,183**

a. Goods and Services expenditure of £1.4 billion (2003-04 £1.7 billion) includes the cost of services provided by Post Office Ltd and Alliance and Leicester Commercial Bank. This consists of encashment costs of £263.5 million (2003-04 £334.5 million) and Post Office Card Account costs amounting to £136.6 million (2003-04 £83.5 million). Other elements included are postage, printing and stationery, minor capital items, medical evidence costs, external consultancy costs, utilities and staff training.

b. There were no fees in respect of non-audit work during 2004-05 and 2003-04.

c. Other costs of £0.3 billion (2003-04 £0.3 billion) include I.T. services of £285.6 million, tribunal expenses of £17.9 million and contract/agency staff costs of £17.5 million.

5. Non-Staff Administration Costs: Non-cash items

a.

	Note	2004-05	Restated 2003-04
		£000	£000
Notional costs	6	9,629	11,522
Depreciation of fixed assets	20c	115,324	93,731
Loss of disposal of fixed assets	20c	9,725	26,552
Impairment of fixed assets	20b	12,217	12,290
Amortisation of prepayments		18,163	16,302
Provisions:			
Movement in year		252,752	38,084
Unwinding of discount		819	1,983
Other		455	66
		419,084	**200,530**

b. The total of non-cash items included in the Reconciliation of Resources to Net Cash Requirement in Schedule 1 and in the Reconciliation of Operating Costs to Operating Cashflows in Schedule 4 comprises:

	Note	2004-05 £000	2004-05 £000	Restated 2003-04 £000	Restated 2003-04 £000
Administration non-cash transactions	5a		419,084		200,530
Prior Year adjustments			—		(7,361)
Programme non-cash transactions	15	(26,912)		(14,063)	
Less: Social Fund capital charge	16	(19,832)		(11,023)	
NIF capital charge	12b	28,089		16,924	
			(18,655)		(8,162)
Non-cash income:					
Government Grant Reserve	10		(17)		(17)
			400,412		**184,990**

6. Notional administration costs

Certain services are provided and received by the Department without the transfer of cash. Amounts are included in the net cost of operations of £9.6 million (2003-04 £11.5 million) to reflect these costs and are comprised as follows:

	Note	2004-05 £000	Restated 2003-04 £000
Cost of capital charge		7,853	9,697
Auditors remuneration and expenses	6a	1,499	1,354
Other Government Departments		277	471
		9,629	**11,522**

a. The audit fee represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. There were no fees in respect of non-audit work during 2004-05 and 2003-04. £160,000 (2003-04 £160,000) relates to the audit of the CSA Client Funds account, which is outside the Departmental boundary, but whose administration costs are borne by the CSA.

7. Non-cash items

	Note	2004-05 £000	Restated 2003-04 £000
Administration Costs	5	419,084	200,530
Programme Costs	15	(26,912)	(14,063)
Income: Government Grant Reserve	10	(17)	(17)
		392,155	**186,450**

8. Net Programme Costs

	Note	2004-05 £000	Restated 2003-04 £000
Current grants and other current expenditure	8a	55,242,898	50,606,279
Research and Development		16,566	16,248
Programme overheads	15	106,513	78,305
Non-Supply expenditure: contributory benefits	8a/14	57,053,553	54,935,353
Agency payments on behalf of EU to third parties	8b	543,875	601,433
Gross programme spend		**112,963,405**	**106,237,618**
Other programme income	10	(131,734)	(155,815)
EU income	8b/10	(600,844)	(627,239)
Net programme costs		**112,230,827**	**105,454,564**

a. Current grants and other current expenditure and contributory benefits expenditure is the amount of expenditure incurred in year and excludes programme overheads. The expenditure analysed in Note 13 includes programme overheads.

b. EU income and payments relate to funding received and payments made from the European Social Fund (ESF), which provides European Union (EU) funding for long term programmes to help regions across Europe upgrade and modernise their workforce skills. The Department acts as a paying agent on behalf of the EU.

9. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund:

	Forecast 2004-05 Income £000	Forecast 2004-05 Receipts £000	Outturn 2004-05 Income £000	Outturn 2004-05 Receipts £000
Operating income and receipts - excess A in A	—	—	54	*54*
Non-operating income and receipts - excess A in A	—	—	—	—
Subtotal	—	—	**54**	***54***
Other operating income and receipts not classified as A in A	3,000	*3,000*	7	*7*
Other non-operating income and receipts not classified as A in A	—	—	45,629	*45,629*
Other amounts collectable on behalf of the Consolidated Fund	15,532	*15,532*	—	—
Excess cash surrenderable to the Consolidated Fund	—	—	—	—
Total	**18,532**	***18,532***	**45,690**	***45,690***

Of the Consolidated Fund Extra Receipts received during 2004-05, £1.2 million was in respect of bank interest, £19.1 million related to miscellaneous programme receipts and £25.3 million was in respect of miscellaneous administration receipts.

10. Income and Appropriations in Aid

Operating Income

Operating income not appropriated in aid (i.e. surrenderable to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not. In 2004–05, all operating income not classified as A in A was within public expenditure.

	2004-05				
	Resource Outturn	Reconciliation to Operating Cost Statement			Operating Cost Statement
	A in A	Netted off gross expenditure	Payable to Consolidated Fund	NIF and other admin adjustments	Income
	£000	£000	£000	£000	£000
Administration income:					
Fees and charges to external customers	146,181	—	56	(28,337)	117,900
Fees and charges to other departments	1,180,644	—	—	(1,157,160)	23,484
Interest received	209	—	5	—	214
Amortisation of Government Grant	17	—	—	—	17
EU income treated as negative public expenditure	701	—	—	—	701
	1,327,752	**—**	**61**	**(1,185,497)**	**142,316**
Programme income:					
EU income treated as negative public expenditure	—	—	—	56,741	56,741
EU income where DWP acts as agent for payments to third parties	544,103	—	—	—	544,103
Other programme income	574,268	(444,432)	—	1,898	131,734
	1,118,371	**(444,432)**	**—**	**58,639**	**732,578**
Total	**2,446,123**	**(444,432)**	**61**	**(1,126,858)**	**874,894**

	Restated 2003-04				
	Resource Outturn	Reconciliation to Operating Cost Statement			Operating Cost Statement
	A in A	Netted off gross expenditure	Payable to Consolidated Fund	NIF and other admin adjustments	Income
	£000	£000	£000	£000	£000
Administration income:					
Fees and charges to external customers	100,141	—	2,684	4,902	107,727
Fees and charges to other departments	1,453,805	—	—	(1,422,894)	30,911
Interest received on pre-funding for early departure costs	352	—	—	—	352
Amortisation of Government Grant	17	—	—	—	17
EU income treated as negative public expenditure	601	—	—	—	601
	1,554,916	**—**	**2,684**	**(1,417,992)**	**139,608**
Programme income:					
EU income treated as negative public expenditure	30,159	—	—	—	30,159
EU income where DWP acts as agent for payments to third parties	477,471	—	59,435	60,174	597,080
Other programme income	661,329	(506,980)	66	1,400	155,815
	1,168,959	**(506,980)**	**59,501**	**61,574**	**783,054**
Total	**2,723,875**	**(506,980)**	**62,185**	**(1,356,418)**	**922,662**

An analysis of income from services provided to external and public sector customers is as follows:

	2004-05 Income	2004-05 Full Cost	2004-05 Surplus	Restated 2003-04 Income	Restated 2003-04 Full Cost	Restated 2003-04 Surplus
	£000	£000	£000	£000	£000	£000
Income from External Customers	117,900	116,407	1,493	107,727	105,874	1,853
Income from Other Government Departments	23,484	23,271	213	30,911	27,996	2,915
	141,384	**139,678**	**1,706**	**138,638**	**133,870**	**4,768**

Non-Operating income not classified as A in A

	2004-05 Income	2004-05 Receipts	Restated 2003-04 Income	Restated 2003-04 Recipts
	£000	£000	£000	£000
Proceeds from disposal of fixed assets	7,518	2,979	143,375	103,375

In 2004-05 the Department received £5.7 million consideration from the sale of accommodation to ICB Ltd, £1.2 million of which was received in cash (see Note 1.6).

In 2003-04, the Department received £140 million consideration from the sale of the ex-Employment Service estate to Land Securities Trillium as part of the TIES contract, £100 million of which was received in cash (see Note 1.6).

11. Administration Cost Limit (see also Note 1.12)

The outturn within the administration costs control regime shown against the Departmental administration cost limit is as follows:

	2004-05 Outturn	2004-05 Limit	Restated 2003-04 Outturn	Restated 2003-04 Limit
	£000	£000	£000	£000
Total within administration cost control	**6,057,070**	**6,120,587**	**6,026,820**	**6,375,540**
Administration Expenditure excluded from admin cost limit	23,511		19,462	
Administration Income allowable within the admin cost limit	100,723		101,813	
Non voted expenditure within administration cost limit	2,783		8,129	
Total administration outturn per Note 13	**6,184,087**		**6,156,224**	

12. Reconciliation of Net Operating Cost to Control Total and Net Resource Outturn

	Note	2004-05	Restated 2003-04
		£000	£000
Net operating cost	12a	118,660,400	111,632,685
Less: - Non-Supply expenditure	12b	(57,042,305)	(54,931,723)
- A in A not treated as income	12c	(1,157,160)	(1,422,894)
- Prior Year Adjustment		—	(11,330)
Add: - Excess A in A	9	54	60,131
- Income payable to the Consolidated Fund	9	7	2,054
- Saving of Social Fund operating cost expenditure over Social Fund grant		(7,883)	131,799
Net Resource Outturn	12a	**60,453,113**	**55,460,722**

a. Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement (Schedule 2). Net resource outturn is the total of those elements of income and expenditure that are subject to Parliamentary approval and included in the Department's Supply Estimate. The outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

b. Non-Supply expenditure is expenditure incurred in respect of National Insurance Fund benefits.

	Note	2004-05 £000	Restated 2003-04 £000
Non-Supply expenditure			
Contributory Benefits	14	57,053,553	54,935,353
NIF income		(1,897)	(1,400)
NIF write-offs and movement on bad debt provision		17,569	16,727
NIF Movement on CRU Provision		1,169	(2,033)
NIF capital charge		(28,089)	(16,924)
		57,042,305	**54,931,723**

c. A in A not treated as income in the Operating Cost Statement are amounts received in respect of National Insurance Fund administration costs.

13. Analysis of Net Resource Outturn by Function and reconciliation to Operating Cost Statement

	2004-05								Restated 2003-04
	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total Outturn	Estimate	Net Total Outturn Compared with Estimate	Prior-Year Outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1: Ensuring the best start for all children and ending child poverty in 20 years									
SPENDING IN DEPARTMENTAL EXPENDITURE LIMITS (DEL):									
Central Government spending									
A: Administration	257,449	124	—	257,573	(196)	257,377	257,442	65	249,236
	257,449	**124**	**—**	**257,573**	**(196)**	**257,377**	**257,442**	**65**	**249,236**
Request for Resources 2: Promote work as the best form of welfare for people of working age, whilst protecting the position of those in greatest need									
SPENDING IN DEPARTMENTAL EXPENDITURE LIMITS:									
Central Government spending									
A: Administration	2,297,831	10,222	20,512	2,328,565	(223,159)	2,105,406	2,104,800	(606)	1,644,215
B: Employment Programmes	—	866,469	190,841	1,057,310	(2,717)	1,054,593	1,096,830	42,237	1,333,856
C: Health and Safety Executive	218,753	51,290	—	270,043	(54,393)	215,650	229,940	14,290	200,160
D: Health and Safety Laboratory	23,955	5,028	—	28,983	(28,983)	—	—	—	(2,243)
E: Capital Grants	—	—	7,756	7,756	—	7,756	8,476	720	9,368
F: The Rent Service Executive Agency	39,424	—	—	39,424	—	39,424	39,559	135	39,849
Support for Local Authorities									
G: Employment Programmes	—	—	32,591	32,591	—	32,591	37,047	4,456	35,791
H: Challenge fund and similar admin measures — LA	—	—	130,177	130,177	—	130,177	61,500	(68,677)	133,351
I: Housing and Council Tax benefit admin grants	—	—	439,845	439,845	—	439,845	434,081	(5,764)	422,891
J: Third Party Providers	—	—	—	—	—	—	1,375	1,375	—
K: Capital Grants to Local Authorities	—	—	1,168	1,168	—	1,168	2,895	1,727	4,230
SPENDING IN ANNUALLY MANAGED EXPENDITURE (AME):									
Central Government spending									
L: Severe Disablement Allowance	—	—	918,557	918,557	—	918,557	890,959	(27,598)	935,347
M: Industrial Injury benefits	—	—	792,919	792,919	—	792,919	764,215	(28,704)	784,241
N: Income Support (under 60 years of age)	—	—	10,057,358	10,057,358	(120,149)	9,937,209	9,982,219	45,010	10,173,980
O: Jobseekers Allowance (Income based)	—	—	1,759,399	1,759,399	(51)	1,759,348	1,829,386	70,038	2,043,825
P: Jobseekers Allowance (Contribution based)	—	—	444,432	444,432	(444,432)	—	—	—	—
Q: Job Grant	—	—	18,285	18,285	—	18,285	16,000	(2,285)	4,994
R: Employment Allowances	—	—	87,498	87,498	—	87,498	86,046	(1,452)	139,366
S: Housing and Council tax benefit capital charge	—	—	(5,858)	(5,858)	—	(5,858)	3,345	9,203	(8,067)
T: Non-continuing benefits debt activity	—	—	391	391	—	391	35	(356)	67
Support for Local Authorities									
U: Housing benefit and council tax benefit subsidies	—	—	11,255,061	11,255,061	(87)	11,254,974	11,345,864	90,890	9,729,835
V: Rent rebates	—	—	4,986,932	4,986,932	—	4,986,932	4,649,839	(337,093)	3,962,164
W: Discretionary housing payments	—	—	15,783	15,783	—	15,783	20,000	4,217	12,667
Non-budget									
X: Statutory benefits (SSP and SMP)	—	—	1,375,924	1,375,924	—	1,375,924	1,376,000	76	1,312,998
SPENDING IN DEPARTMENTAL EXPENDITURE LIMITS (DEL):									
Central Government spending									
Y: European Social Fund	—	—	18,354	18,354	—	18,354	75,415	57,061	—
Z: European Social Fund payments in advance of receipts	—	—	475,655	475,655	—	475,655	401,993	(73,662)	465,001
Support for Local Authorities									
AA: European Social Fund	—	—	(7,579)	(7,579)	—	(7,579)	8,650	16,229	—
AB: European Social Fund payments in advance of receipts	—	—	57,673	57,673	—	57,673	63,865	6,192	71,905
Non-budget									
AC: European Social Fund	—	—	—	—	(544,103)	(544,103)	(549,919)	(5,816)	(477,471)
	2,579,963	**933,009**	**33,073,674**	**36,586,646**	**(1,418,074)**	**35,168,572**	**34,980,415**	**(188,157)**	**32,972,320**

	2004-05								Restated 2003-04
	Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total Outturn	Estimate	Net Total Outturn Compared with Estimate	Prior-Year Outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 3:									
Combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners									
SPENDING IN DEPARTMENTAL EXPENDITURE LIMITS:									
Central Government spending									
A: Administration	573,468	17,310	—	590,778	(190,251)	400,527	410,222	9,695	287,712
SPENDING IN ANNUALLY MANAGED EXPENDITURE:									
Central Government spending									
B: Pension benefits	—	—	776,247	776,247	—	776,247	783,495	7,248	45,710
C: Income Support for the Elderly and Pension Credit	—	—	6,100,649	6,100,649	—	6,100,649	6,090,441	(10,208)	5,000,516
D: TV Licences for the over 75s	—	—	435,493	435,493	—	435,493	421,530	(13,963)	409,716
Non-budget									
E: Payments to the Social Fund	—	—	2,255,889	2,255,889	—	2,255,889	2,286,786	30,897	2,340,900
F: OPRA (Grant in Aid)	—	—	21,273	21,273	—	21,273	20,435	(838)	16,064
G: Better Government for Older People (Grant in Aid)	—	—	236	236	—	236	564	328	370
H: Centre for Policy on Ageing (Grant in Aid)	—	—	75	75	—	75	70	(5)	—
	573,468	**17,310**	**9,589,862**	**10,180,640**	**(190,251)**	**9,990,389**	**10,013,543**	**23,154**	**8,100,988**
Request for Resources 4:									
Improve the rights and opportunities for disabled people in a fair and inclusive society									
SPENDING IN DEPARTMENTAL EXPENDITURE LIMITS:									
Central Government spending									
A: Administration	167,174	613	—	167,787	(686)	167,101	176,258	9,157	171,880
B: Motability administration	—	—	2,700	2,700	(149)	2,551	2,379	(172)	2,457
SPENDING IN ANNUALLY MANAGED EXPENDITURE:									
Central Government spending									
C: Attendance allowance	—	—	3,673,790	3,673,790	—	3,673,790	3,698,849	25,059	3,452,859
D: Disability living allowance	—	—	8,079,490	8,079,490	—	8,079,490	8,153,242	73,752	7,578,860
E: Carers Allowance	—	—	1,096,133	1,096,133	—	1,096,133	1,125,797	29,664	1,051,281
F: Vaccine Damage payments	—	—	429	429	—	429	500	71	478
G: Grants to independent bodies	—	—	217,583	217,583	(451)	217,132	218,988	1,856	194,988
Non-budget									
H: Disability Rights Commission (Grant in Aid)	—	—	16,597	16,597	—	16,597	15,422	(1,175)	14,656
	167,174	**613**	**13,086,722**	**13,254,509**	**(1,286)**	**13,253,223**	**13,391,435**	**138,212**	**12,467,459**
Request for Resources 5:									
Modernise welfare delivery so as to improve the accessibility, accuracy and value for money of services to customers, including employers									
SPENDING IN DEPARTMENTAL EXPENDITURE LIMITS:									
Central Government spending									
A: Administration	576,839	—	—	576,839	(184,313)	392,526	440,607	48,081	681,880
	576,839	**—**	**—**	**576,839**	**(184,313)**	**392,526**	**440,607**	**48,081**	**681,880**
Request for Resources 6:									
Corporate contracts and support services									
SPENDING IN DEPARTMENTAL EXPENDITURE LIMITS:									
Central Government spending									
A: Administration	2,029,194	13,835	—	2,043,029	(652,003)	1,391,026	1,405,949	14,923	988,839
	2,029,194	**13,835**	**—**	**2,043,029**	**(652,003)**	**1,391,026**	**1,405,949**	**14,923**	**988,839**
Resource Outturn	**6,184,087**	**964,891**	**55,750,258**	**62,899,236**	**(2,446,123)**	**60,453,113**	**60,489,391**	**36,278**	**55,460,722**

	2004-05			Restated 2003–04
	Gross Resource Expenditure	A in A	Net Total Outturn	Prior-Year Outturn
Reconciliation to Operating Cost Statement	**£000**	**£000**	**£000**	**£000**
Resource Outturn	62,899,236	(2,446,123)	60,453,113	55,460,722
Non-Supply expenditure	57,044,202	(1,897)	57,042,305	54,931,723
Non A in A operating income	—	1,157,160	1,157,160	1,422,894
Other administration adjustments	28,405	(28,405)	—	—
Saving of Social Fund Operating cost expenditure over Social Fund grant	7,883	—	7,883	(131,799)
Income payable to the Consolidated Fund (excess A in A)	—	(54)	(54)	(2,054)
Income payable to the Consolidated Fund (non A in A)	—	(7)	(7)	(60,131)
Income netted off in gross subhead grossed up in the Operating Cost Statement	(444,432)	444,432	—	—
Prior Year Adjustment	—	—	—	11,330
Net Operating Cost	**119,535,294**	**(874,894)**	**118,660,400**	**111,632,685**

Functions represent disaggregation for control purposes and Parliamentary approval. They may not correspond to Departmental objectives, which in turn reflect a disaggregation of the Departmental aim for the management of activities.

14. Non-Supply Expenditure: Contributory Benefits

	2004-05	Restated 2003-04
	£000	**£000**
Pensions Benefit		
Retirement Benefit		
Basic element	40,018,181	38,489,528
Earnings-related component	8,746,948	7,971,371
Christmas Bonus	123,015	121,828
Widows' Benefit		
Basic element	586,619	641,952
Earnings-related component	175,008	202,048
Bereavement Benefits	160,153	161,810
Unemployment Benefits		
Jobseeker's Allowance - Contribution Based	444,339	506,980
Unemployment Benefit	384	5
Sickness Benefit	(399)	(771)
Incapacity Benefit		
Short-term and Long-term	6,022,564	6,061,970
Earnings-related component	629,500	654,207
Invalidity Benefit	(2,517)	(3,481)
Family Benefits		
Maternity Allowance	149,758	127,906
	57,053,553	**54,935,353**

15. Programme Overheads

	Note	2004-05 £000	2004-05 £000	Restated 2003-04 £000	Restated 2003-04 £000
Movement in provision for doubtful debt	17		51,114		18,006
Programme balances written off	18		82,311		74,362
Non-Cash Items:					
Movement in Provisions		(15,596)		(5,915)	
Unwinding of discount		—		—	
Notional Costs:					
Cost of Capital charge	16	(11,316)		(8,148)	
	7		(26,912)		(14,063)
			106,513		**78,305**

16. Cost of Capital: Programme

The capital charge on programme assets and liabilities consists of:

	2004–05 £000	Restated 2003–04 £000
Cost of Capital charged on:		
Cash with Paying Agents	7,019	21,076
Social Fund Payments	19,832	11,023
Other Programme net assets (excluding amounts due to HM Treasury and Paymaster balances)	(38,167)	(40,247)
	(11,316)	**(8,148)**

The capital charge on programme net assets has been apportioned over the Requests for Resources on the basis of programme expenditure levels.

17. Provision for doubtful debt: Programme

The movement in the provision for doubtful debt relates to the following benefits:

	2004-05 £000	Restated 2003-04 £000
Contributory Benefits	9,708	7,007
Non-Contributory Benefits	49,122	4,056
Social Fund Payments	(7,716)	11,296
European Social Fund	—	(4,353)
	51,114	**18,006**

18. Programme balances written off

These consist of the write-off of the following benefits:

	2004-05	Restated 2003-04
	£000	£000
Contributory Benefits		
Pensions Benefits	5,045	6,773
Incapacity Benefit	2,743	2,856
Other	73	91
Non-Contributory Benefits		
Disability Benefits	12,855	13,789
Income Support	19,675	20,371
Family Benefits	38	49
Other	1,285	2,327
Social Fund Payments		
Funeral Payments	38,101	25,809
Other	2,268	2,297
European Social Fund	228	—
	82,311	**74,362**

19. Analysis of Capital Expenditure, Financial Investment and Associated A in A

2004-05

	Capital Expenditure	A in A	Net Total
	£000	£000	£000
Request for Resources 1 (Children)	417	—	417
Request for Resources 2 (Working Age)	152,136	(5,720)	146,416
Request for Resources 3 (Pensioners)	6,893	(1)	6,892
Request for Resources 4 (Disabled)	317	—	317
Request for Resources 5 (Modernisation)	127,573	—	127,573
Request for Resources 6 (Corporate Services)	10,002	(1,797)	8,205
	297,338	**(7,518)**	**289,820**

Restated 2003-04

	Capital Expenditure	A in A	Net Total
	£000	£000	£000
Request for Resources 1 (Children)	18	—	18
Request for Resources 2 (Working Age)	245,535	(408)	245,127
Request for Resources 3 (Pensioners)	613	—	613
Request for Resources 4 (Disabled)	65	—	65
Request for Resources 5 (Modernisation)	69,405	—	69,405
Request for Resources 6 (Corporate Services)	8,995	(142,967)	(133,972)
	324,631	**(143,375)**	**181,256**
Request for Resources 2—prior year adjustment	3,969	—	3,969
	328,600	**(143,375)**	**185,225**

20. Tangible Fixed Assets

	Note	Land and Buildings £000	Leasehold Improvements £000	Information Technology £000	Plant and Machinery £000	Furniture and Fittings £000	Motor Vehicles £000	Payments on Account and Assets Under Construction £000	Internally Developed Software £000	Total £000
Cost or Valuation										
As at 1 April 2004 (restated)		13,306	367,344	343,405	27,957	30,997	34,637	2,414	—	820,060
Reclassifications		(474)	585	1,367	62	—	—	(1,540)	—	—
Additions	20a	54,045	89,913	18,030	1,520	4,592	7,569	94,137	2,500	272,306
Disposals		(6,320)	—	(23,397)	(2,636)	(8,787)	(6,171)	—	—	(47,311)
Revaluations	20b	5,923	—	(17,709)	27	1,153	324	—	—	(10,282)
At 31 March 2005		66,480	457,842	321,696	26,930	27,955	36,359	95,011	2,500	1,034,773
Depreciation										
As at 1 April 2004 (restated)		2,191	37,676	118,640	21,518	16,344	14,994	—	—	211,363
Reclassifications		(140)	140	—	—	—	—	—	—	—
Charged in year	20c	746	42,307	62,064	1,726	3,222	6,496	—	333	116,894
Disposals		(1,576)	—	(13,307)	(2,517)	(7,949)	(4,307)	—	—	(29,656)
Revaluations	20b	(110)	—	(5,564)	39	475	179	—	—	(4,981)
At 31 March 2005		1,111	80,123	161,833	20,766	12,092	17,362	—	333	293,620
Net Book Value at 31 March 2005		**65,369**	**377,719**	**159,863**	**6,164**	**15,863**	**18,997**	**95,011**	**2,167**	**741,153**
Net Book Value at 31 March 2004		11,115	329,668	219,870	6,439	12,004	19,643	924	—	599,663
Restatements		—	—	4,895	—	2,649	—	1,490	—	9,034
Restated Net Book Value at 31 March 2004		**11,115**	**329,668**	**224,765**	**6,439**	**14,653**	**19,643**	**2,414**	**—**	**608,697**
Asset financing:										
Owned		8,102	377,719	159,863	6,164	13,410	18,997	94,296	2,167	680,718
PFI Contracts		57,267	—	—	—	2,453	—	—	—	59,720
Finance leased		—	—	—	—	—	—	—	—	—
PFI residual interests		—	—	—	—	—	—	715	—	715
Net Book Value at 31 March 2005		**65,369**	**377,719**	**159,863**	**6,164**	**15,863**	**18,997**	**95,011**	**2,167**	**741,153**

a. Total additions in the year were £272.3 million (2003-04 £331.0 million). This consisted of £271.2 million (2003-04 £323.9 million) of capital expenditure and £1.1 million (2003-04 £7.1 million) of assets which had been purchased prior to 2004-05 but which had previously been charged as expenditure.

b. The net increase in asset values arising from the revaluation of fixed assets of £6.9 million (2003-04 £0.9 million) has been transferred to the Revaluation Reserve. The impairment in fixed assets arising from the permanent decrease in value of £12.2 million (2003-04 £12.3 million) in excess of previous revaluation has been charged to the Operating Cost Statement.

c. Total depreciation in the year was £116.9 million (2003-04 £98.4 million). This consisted of £115.3 million (2003-04 £93.7 million) charged to the Operating Cost Statement and £2.6 million (2003-04 £5.0 million) relating to assets purchased prior to 2004-05 charged to the General Fund. The loss on sale of fixed assets charged to the Operating Cost Statement in the year is £9.7 million (2003-04 £26.6 million).

Land and Buildings comprise the following:

	Freeholds	Short Leaseholds	Total
	£000	£000	£000
Cost or Valuation			
At 1 April 2004 (restated)	10,529	2,777	13,306
Reclassification	1,267	(1,741)	(474)
Additions	63	53,982	54,045
Disposals	(5,509)	(811)	(6,320)
Revaluations	2,253	3,670	5,923
At 31 March 2005	**8,603**	**57,877**	**66,480**
Depreciation			
At 1 April 2004 (restated)	1,802	389	2,191
Reclassification	—	(140)	(140)
Charged in year	301	445	746
Disposals	(1,309)	(267)	(1,576)
Revaluations	(110)	—	(110)
At 31 March 2005	**684**	**427**	**1,111**
Net Book Value at 31 March 2005	**7,919**	**57,450**	**65,369**
Net Book Value at 31 March 2004	**8,727**	**2,388**	**11,115**

d. Jobcentre Plus

Jobcentre Plus does not include in its Balance Sheet capital values of the land and buildings that it occupies. All properties are leased, the majority under a Private Finance Initiative contract with Land Securities Trillium. Costs incurred during the year in respect of major refurbishment and improvement of these properties has been capitalised as Leasehold Improvements.

e. Health and Safety Commission and Executive

Land and Buildings at Buxton were independently valued at 31 March 2005 by Jones, Lang, La Salle. The property at Carlisle was independently valued during 2000–01 by Donaldsons, Chartered Surveyors. In each case the valuations were in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. In the periods between formal valuations properties have been revalued in accordance with appropriate indices.

f. Cash Flow Reconciliation

	Note	2004-05	Restated 2003-04
		£000	£000
Capital Creditors and Accruals at 1 April		7,752	3,096
Capital Prepayments at 1 April		—	(38)
Restatement		—	715
Capital additions		271,254	323,893
Capital Prepayments at 31 March	25	271	—
Capital Creditors and Accruals at 31 March	27	(59,923)	(7,752)
Purchases of Tangible Fixed Assets as per Cash Flow Statement		**219,354**	**319,914**

21. Intangible Fixed Assets

The Department's intangible fixed assets comprise purchased software licences.

	Purchased Software Licences
	£000
Cost or valuation	
At 1 April 2004 (restated)	1,419
Additions	26,084
Disposals	—
Revaluation	—
At 31 March 2005	**27,503**
Amortisation	
At 1 April 2004 (restated)	716
Charged in year	999
Disposals	—
Revaluation	—
At 31 March 2005	**1,715**
Net book value at 31 March 2005	**25,788**
Net book value at 31 March 2004	**703**

22. Investments

	2004-05 Working Links (Employment) Ltd Share Capital	2003-04 Working Links (Employment) Ltd Share Capital
	£000	**£000**
Balance as at 1 April	**589**	**777**
Revaluations	(375)	(188)
Balance as at 31 March	**214**	**589**

The only investment held by the Department for Work and Pensions at the balance sheet date comprised 100 Ordinary Shares, with a nominal value of £1 each, in Working Links (Employment) Limited, a joint venture with Manpower plc and Ernst & Young (Working Links) Limited. The valuation is based on the one-third share that Jobcentre Plus has of the company's net assets based on its audited accounts for the year ended 31 March 2005. There has been no change in the number of shares owned by Jobcentre Plus during the year.

23. Movements in Working Capital other than Cash

	2004–05	Restated 2003–04
	£000	£000
(Increase)/Decrease in Stocks and Work in Progress	635	(372)
(Increase)/Decrease in Cash with Paying Agents	673,289	(44,357)
(Increase) in Debtors	(152,604)	(1,058,335)
Increase in Creditors falling due within one year	994,325	355,660
	1,515,645	**(747,404)**
Adjustments: movements in working capital not related to net operating costs		
Amortisation of Prepayments	(13,625)	(17,760)
Capital Prepayments	271	(38)
Capital Trade Creditors and Accruals	5,230	(4,656)
CFERs not treated as income	(12,475)	4,137
Excess A in A	60,077	(60,131)
Supply Debtor	(227)	(306)
Supply Creditor	(546,905)	23,128
Debtor and Creditor Adjustments	(1)	40,854
Net Increase/(Decrease) in Working Capital other than Cash as per Cashflow	**1,007,990**	**(762,176)**
Adjustments: movement in Working Capital not related to voted resource consumption		
National Insurance Fund	811,906	(1,736,648)
Social Fund	11,949	142,822
Capital Trade Creditors Movement	51,900	3,979
PFI Prepayment	(4,537)	(40,000)
Other	354	—
Net Increase/(Decrease) in Working Capital other than Cash as per Schedule 1	**1,879,562**	**(2,392,023)**

24. Stocks and Work in Progress

	2004-05	Restated 2003-04
	£000	£000
Consumables	59	68
Work in Progress	677	681
Finished Stock for sale	884	1,506
	1,620	**2,255**

Stock and Work in Progress consists of publications (for example booklets), stationery and other office consumables and protective clothing in relation to the Health and Safety Executive.

25. Debtors

Administration Debtors

	Note	31 March 2005 £000	Restated 31 March 2004 £000
Amounts falling due within one year			
Trade debtors		14,384	11,994
Deposits and advances	25a	2,704	3,004
Amounts due from Other Government Departments		29,052	30,973
VAT		83,675	46,659
Amounts owed by Working Links (Employment) Ltd		1,506	871
Other debtors		16,480	7,507
Prepayments and accured income		31,878	36,179
Early departure prepayment	29a	618	1,059
Accommodation prepayment		948	948
TIES prepayment		2,791	2,791
CSR prepayment		6,924	6,924
OBCS prepayment		—	7,500
PFI prepayment		154	—
Capital prepayments	20f	271	—
Amounts due from the Consolidated Fund	31	—	227
Provision for bad and doubtful debts		(7,111)	(1,433)
		184,274	**155,203**
Amounts falling due after more than one year			
Deposits and advances	25a	1,436	1,651
CSR prepayment		30,583	37,507
Early departure prepayment	29a	592	1,208
Accommodation prepayment		20,866	21,814
TIES prepayment		33,489	36,279
PFI prepayment		4,383	—
Prepayments and accured income		139	89
Other debtors		—	2
		91,488	**98,550**

Programme Debtors

	Note	Gross Debtors	Provision for Doubtful Debt	31 March 2005 Net Debtors	Restated 31 March 2004 Net Debtors
		£000	£000	£000	£000
Amounts falling due within one year					
Benefit Overpayments					
Contributory Benefits	25b	35,453	(15,222)	20,231	23,498
Non-Contributory Benefits	25b	147,437	(65,868)	81,569	78,789
Housing Benefit and Council Tax	25c	189,942	—	189,942	208,022
Social Fund		45	—	45	48
European Social Fund		16,209	—	16,209	9,846
Prepayments					
Contributory Benefits		260,269	—	260,269	220,233
Non-Contributory Benefits		127,337	—	127,337	98,593
Employment Benefits		51,250	—	51,250	38,185
Social Fund					
Funeral Payments		999	(437)	562	429
Other Loans		377,832	(1,231)	376,601	364,075
European Social Fund	25e/27c	1,250,712	—	1,250,712	1,253,195
Other Programme Debtors	25d	10,935	(303)	10,632	13,687
		2,468,420	**(83,061)**	**2,385,359**	**2,308,600**
Amounts falling due after more than one year					
Benefits Overpayments					
Contributory Benefits	25b	118,276	(56,900)	61,376	53,294
Non-Contributory Benefits	25b	952,729	(410,648)	542,081	528,734
Social Fund		101	—	101	85
Social Fund					
Funeral Payments		97,955	(42,824)	55,131	41,209
Other Loans		247,416	(787)	246,629	224,813
Other Programme Debtors		1,729	—	1,729	5,076
		1,418,206	**(511,159)**	**907,047**	**853,211**
Total Debtors				**3,568,168**	**3,415,564**
Of which					
Due within one year				2,569,633	2,463,803
Due after one year				998,535	951,761

a. Deposits and advances due within one year includes £0.2 million (2003-04 £0.2 million) of house purchase advances due from 334 (2003-04 364) members of staff. Those due after more than one year include £1.4 million (2003-04 £1.6 million) due from 269 (2003-04 322) members of staff.

b. Included in Contributory Benefits overpayments is an amount of £5.9 million (2003-04 £4.5 million) in respect of Compensation Recovery Unit debtors. The amount included within Non-Contributory Benefit overpayments is £6.8 million (2003-04 £1.8 million).

c. The Department makes monthly payments of Housing Benefit and Council Tax Benefit subsidy to local authorities based on estimated liabilities. The District Auditor validates the final claim from each local authority. The Accounts include estimates of amounts due from and to local authorities based on pre-audited claims submitted by local authorities. The Department recognises that the basis of the estimate is subject to uncertainty and may need adjustment in a subsequent year of account on receipt of final audited claims (see also Note 27).

d. Other programme debtors consist of balances due from other government departments and external bodies.

e. Within the total balance is an amount of £107.2 million (2003-04 £117.1 million) which relates to amounts due which, once received, will be payable to the Consolidated Fund (See also Note 27).

26. Cash at Bank and In Hand

	Note	2004-05 Total £000	Restated 2003-04 Total £000
Balances as at 1 April (restated)		169,629	136,446
Change in cash balances		499,304	33,183
Balance as at 31 March		**668,933**	**169,629**
The following balances at 31 March are held at:			
Office of HM Paymaster General	26a	663,680	162,407
Commercial banks and Cash in Hand		5,253	7,222
		668,933	**169,629**
The balance at 31 March comprises:			
Cash due to be paid to the Consolidated Fund:			
Amounts issued from the Consolidated Fund for Supply but not spent at year end		552,194	5,289
Consolidated Fund Extra Receipts received and due to the Consolidated Fund		20,273	7,798
Other amounts due to the Consolidated Fund		54	60,131
Cash due to be paid to the National Insurance Fund		4,685	7,250
EU monies held as agent for third parties		91,284	45,160
Amount due in respect of transfer of functions		—	—
Other		443	44,001
		668,933	**169,629**

a. The Office of HM Paymaster General (OPG) provides a current account banking service.

b. Bank balances are shown net of outstanding liabilities for instruments of payment due to be encashed against the Department's bank accounts.

27. Creditors

	Note	31 March 2005 £000	Restated 31 March 2004 £000
Administration Creditors			
Amounts falling due within one year			
Taxation and social security		83,878	59,438
Superannuation		7,477	934
Trade creditors - non capital		186,763	146,730
- capital	20f	1,075	3,819
Amounts due to other Government Departments		8,702	18
Finance leases	36	174	186
Payments on account		—	672
Other creditors		6,048	9,605
Accruals and deferred income		428,332	414,459
Capital Accruals	20f	1,241	3,933
Amounts drawn from the Consolidated Fund not spent	31	552,194	5,289
CFERs due to be paid to the Consolidated Fund-received		6,048	7,210
Excess A in A due to the Consolidated Fund		54	696
		1,281,986	**652,989**
Amounts falling due after more than one year			
Finance Leases	20f/37	57,607	174
		57,607	**174**

Programme Creditors
Amount falling due within one year

Accruals			
Contributory Benefits		1,155,247	1,010,617
Non-Contributory Benefits		449,436	427,899
Social Fund Benefits		3,285	79
Local Authorities		28,105	12,159
European Social Fund		262,635	324,095
Encashment Control	27a	151,140	294,373
Paying Agents underfunding	27f	279,285	—
Housing Benefit and Council Tax Benefit underpayments	25c	385,686	292,164
CFERs due to be paid to the Consolidated Fund - received		14,225	588
CFERs due to be paid to the Consolidated Fund - receivable	25e	107,239	117,147
Excess A in A due to the Consolidated Fund		—	59,435
Third Party Payments	27b	38,427	35,940
Other Programme Creditors		46,660	47,603
European Social Fund	27c	397,013	330,956
		3,318,383	**2,953,055**
Amounts falling due after more than one year			
European Social Fund	27d	282,513	274,225
		282,513	**274,225**
Total Creditors		**4,940,489**	**3,880,443**
Of which			
Due within one year		4,600,369	3,606,044
Due after one year		340,120	274,399

a. Encashment control represents outstanding liabilities for instruments of payment due to be encashed against amounts held by the Department's paying agents.

b. Third Party Payments represent amounts deducted from benefit payments and due to external bodies such as utility companies and mortgage lenders.

c. The Department makes payments from the European Social Fund upon receipt of a valid declaration from Applicants stating project spend to date. Until the declaration is received from the Applicant, the Department cannot accurately quantify its liabilities and related accrued income. The Accounts include an estimate of these amounts at the year end and this is based on a comparison between the agreed spend profiles provided by the Applicants and payments made to date. The accruals have been adjusted to reflect the fact that over the life of a project the Applicant does not claim the full value stated in the forecast. However, the Department recognises that the basis of the calculation is subject to uncertainty and may need adjustment in a subsequent year of account.

d. Balances due over one year of £282.5 million (31 March 2004 £274.2 million) relates to European Social Fund advances due to be paid back after the conclusion of the 2000-06 programmes, which is likely to be in 2011-12.

e. Included within the Balance Sheet is a credit balance of £997.6 million (31 March 2004 £1,736.6 million debit) which represents the current account balance with the NIF. This is held within several ledger balances due to the nature of the relationship between the Department and the NIF.

f. The balance with paying agents has moved from a debit balance of £673.3 million at 31 March 2004 to a credit balance of £279.3 million. This arose following a drastic reduction in March 2005 prefunding to paying agents, to compensate for the overfunding of payments made in January and February 2005. This resulted in an overdrawn balance as at 31 March 2005.

28. Intra-government balances

The following table analyses total debtor and creditor balances across the categories shown:

	Debtors: amounts falling due within one year (Note 25)	Debtors: Amounts falling due after more than one year (Note 25)	Creditors: amounts falling due within one year (Note 27)	Creditors: amounts falling due after more than one year (Note 27)
	£000	£000	£000	£000
Balances with other central government bodies	160,653	—	(867,011)	—
Balances with local authorities	194,422	—	(414,179)	—
Balances with NHS Trusts	30	—	(33)	—
Balances with public corporations and trading funds	479	—	(4,367)	—
Balances with bodies external to government	2,214,049	998,535	(3,314,779)	(340,120)
At 31 March 2005	**2,569,633**	**998,535**	**(4,600,369)**	**(340,120)**
Balances with other central government bodies	98,782	—	(436,029)	—
Balances with local authorities	213,042	3,347	(304,323)	—
Balances with NHS Trusts	—	—	—	—
Balances with public corporations and trading funds	—	—	(2,857)	—
Balances with bodies external to government	2,151,979	948,414	(2,862,835)	(274,399)
At 31 March 2004 (restated)	**2,463,803**	**951,761**	**(3,606,044)**	**(274,399)**

29. Provisions for Liabilities and Charges

	31 March 2005	Restated 31 March 2004
	£000	£000
Early Departure provision (gross)	31,831	26,615
Other Administration provisions	289,778	72,370
Programme provisions	29,552	65,787
	351,161	**164,772**

Early Departure and pension commitments	Gross Provision		Prepayment		Net Provision	
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2004 (restated)		26,615		(2,267)		24,348
Amounts utilised in year		(9,943)		1,266		(8,677)
Movement in provision						
New Early retirees	13,188		—		13,188	
Uplift	1,169		—		1,169	
Changes to provisions	—		—		—	
		14,357		—		14,357
Unwinding of Discount		802		—		802
Interest received on pre-funding		—		(209)		(209)
Balance at 31 March 2005		**31,831**		**(1,210)**		**30,621**
Payable within one year		14,804		(618)		14,186
Payable after more than one year		17,027		(592)		16,435

a. In accordance with guidance issued by HM Treasury, the early departure provision and prepayment have not been offset but are instead shown separately. The prepayment is included within debtors (see Note 25).

Other Administration provisions	ESF (Note 29b)	PRIME (Note 29c)	Pensions liability (Note 30)	Staff Restruc-turing (Note 29d)	FAS (Note 29e)	Other (Note 29f)	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2004 (restated)	15,140	49,384	3,825	—	—	4,021	72,370
Provided in year	374	24,836	1,736	11,022	214,155	2,229	254,352
Changes to provision	(1,809)	(12,412)	7,231	—	—	—	(6,990)
Unwinding of discount	—	—	—	—	—	17	17
Utilised in year	—	(27,475)	(1,752)	—	—	(744)	(29,971)
Balance at 31 March 2005	**13,705**	**34,333**	**11,040**	**11,022**	**214,155**	**5,523**	**289,778**

Programme provisions	Pneumoconiosis Payments (Note 29g)	Compensation Recovery Unit (Note 29h)	Total
	£000	£000	£000
Balance at 1 April 2004 (restated)	58,056	7,731	65,787
Provided in year	—	1,896	1,896
Changes to provision	(17,492)	—	(17,492)
Utilised in year	(20,639)	—	(20,639)
Balance at 31 March 2005	**19,925**	**9,627**	**29,552**

b. The provision relating to European Social Fund comprises a £8.0 million provision against the recoverability of claims submitted to the European Commission (EC) in respect of old Programmes (1994 to 1999), where errors are discovered by the EC during the audit, a £4.4 million provision relating to the potential capping of payments by the EC on claims submitted, which means that an element of claims which the Department has paid out is not recovered, and an overpayment to applicants of £1.3 million.

c. The increase to the provision relating to PRIME accommodation comprises a £12.8 million provision in respect of Customer Care Officer costs in 2004-05 where the final price to be paid to the supplier has yet to be agreed, and an estimated cost of £12.0 million in respect of separate service charges estimated by landlords when compared with those actually incurred.

d. Staff Restructuring - Following the announcement of the Department's plan to reduce manpower as part of efficiency savings, it has been necessary to release surplus staff under Early Departure Schemes. As at 31 March 2005, a number of schemes were complete and provisions in respect of these have been included within Early departure and pension commitments. For those schemes which were not complete, a general staff restructuring provision has been created until final costs are ascertained.

e. FAS (Financial Assistance Scheme) - This scheme was announced in May 2004 and was created to provide assistance payments to individuals who face losses in their expected pensions due to their pension scheme winding up as a result of employers' insolvency. Assistance is limited to those schemes which wound up or began the process of winding up between 1 January 1997 and 5 April 2005.

f. Other provisions have been made in respect of the following: dilapidations, industrial injuries, HSE Chairman's pension and onerous leases.

g. Pneumoconiosis Provision - This provision has been made in respect of compensation payments that are made under the workers' Pneumoconiosis Compensation Payments Scheme. This is intended to compensate those suffering from certain dust diseases where they are unable to claim compensation by way of civil action in the courts. Award of Industrial Injuries Disablement Benefit is a precondition for payments to all sufferers and most dependants.

h. Compensation Recoveries - The Department recognises that it is likely to collect recoveries from insurance companies in respect of on-going compensation claims made by benefit recipients. Once insurance companies have paid they have the right to appeal within one month. If the appeal is successful recoveries are refunded to the insurance company.

Due to the nature of each of the provisions there is uncertainty over the actual amounts which will become payable.

30. Pension Liability

For the purpose of Financial Reporting Standard (FRS) 17, The Rent Service commissioned a qualified independent actuary to carry out an assessment of the Local Government Pension Scheme (LGPS) as at 31 March 2005. The results of the actuarial assessment are shown below, and relate to the proportion of the LGPS Fund attributable to The Rent Service.

Assumptions As At	**31 March 2005 % per annum**	**31 March 2004 % per annum**
Inflation	2.9%	2.9%
Salary increase	4.4%	4.4%
Pension increase	2.9%	2.9%
Discount rate	5.4%	6.5%

Assets	**Long Term Return % per Annum**	**Fund value at 31 March 2005**	**Fund value at 31 March 2004**
		£000	**£000**
Equities	7.7	26,509	13,248
Bonds	5.1	3,630	2,020
Property	6.5	2,394	606
Cash	4	1,127	255
Total	**7.3**	**33,660**	**16,129**

Net pensions deficit as at	**31 March 2005**		**31 March 2004**	
	£000	**£000**	**£000**	**£000**
Estimated Employer Assets		33,660		16,129
Present Value of Scheme Liabilities	(44,470)		(19,796)	
Present Value of Unfunded Liabilities	(230)		(158)	
Total value of Liabilities		(44,700)		(19,954)
Net Pension Deficit		**(11,040)**		**(3,825)**

In accordance with the requirements of the *RAM*, the fund deficit has been included on the balance sheet. It should be noted that the actuary has rolled forward the 2004 fund valuation results in respect of the FRS 17 report as at 31 March 2005 whereas the report as at 31 March 2004 was rolled forward from the 2001 fund valuation position.

Amounts charged to Staff Costs	**31 March 2005**	**31 March 2004**
	£000	**£000**
Current Service Costs	1,736	1,436
Past Service Costs	–	174
Curtailments and Settlements	583	7
Total Operating Charge	**2,319**	**1,617**

Amounts charged to Other Administration Costs	**31 March 2005**	**31 March 2004**
	£000	**£000**
Expected Return on Employer Assets	1,208	902
Interest on Pension Scheme Liabilities	(1,141)	(1,084)
Net Administration Costs	**67**	**(182)**

Analysis of Amount Recognised in Statement of Recognised Gains and Losses (SRGL)	**31 March 2005**	**31 March 2004**
	£000	**£000**
Actual return less expected return on pension scheme assets	923	1,944
Experience gains and losses arising on the scheme liabilities	(253)	(44)
Changes in Financial Assumptions Underlying the Present Value of the Scheme Liabilities	(7,385)	–
	(6,715)	**1,900**

Movement in Deficit During the Year	**31 March 2005**	**31 March 2004**
	£000	**£000**
Deficit at beginning of the year (as restated)	(3,825)	(5,638)
Current Service Costs	(1,736)	(1,436)
Employer Contributions	1,733	1,703
Contributions in respect of Unfunded Benefits	19	9
Past Service Costs	–	(174)
Impact of settlement and curtailments	(583)	(7)
Other Finance Costs	67	(182)
Actuarial Gains/(Losses)	(6,715)	1,900
Deficit at end of the year	**(11,040)**	**(3,825)**

History of Experience Gains and Losses	**31 March 2005**	**31 March 2004**
	£000	**£000**
Difference Between the Expected and Actual Return on Assets	923	1,944
Value of Assets	33,660	16,129
Percentage of Assets	**2.7%**	**12.1%**
Experience (Losses)/Gains on Liabilities	(253)	(44)
Total Present Value of Liabilities	44,700	19,954
Percentage of the Total Present Value of Liabilities	**(0.6%)**	**(0.2%)**
Actuarial Gains/(Losses) Recognised in SRGL	(6,715)	1,900
Total Present Value of Liabilities	44,700	19,954
Percentage of the Total Present Value of Liabilities	**(15.0%)**	**9.5%**

31. Reconciliation of Net Operating Cost to changes in the General Fund

	Note	2004-05 £000	2004-05 £000	Restated 2003-04 £000	Restated 2003-04 £000
Net operating cost for the year (Schedule 2)		(118,660,400)		(111,632,685)	
Income not appropriated in aid payable to Consolidated Fund — CFERs	9	(7)		(2,054)	
			(118,660,407)		(111,634,739)
Parliamentary funding:					
Financing from Consolidated Fund — current year		59,060,551		57,594,362	
Financing from Consolidated Fund — prior year		—		533	
Prior year amounts drawn not spent — deemed Supply		5,289		28,417	
			59,065,840		57,623,312
Amounts due to Consolidated Fund in respect of Supply	27		(552,194)		(5,289)
Amounts due from Consolidated Fund in respect of Supply	25		—		227
Financing from National Insurance Fund			59,039,460		54,634,893
Excess A in A payable to the Consolidated Fund			(54)		(60,131)
Transfers to General Fund of realised element of revaluation reserve	32		1,796		68,158
Asset transfers to Other Government Departments			—		(49)
Actuarial loss on pension	30		(6,715)		1,900
Non-cash charges:					
Non-cash capital additions		(1,517)		2,124	
Notional charges-administration	6	9,629		11,522	
Cost of capital-programme	16	(11,316)		(8,148)	
			(3,204)		5,498
Other			(535)		(1,112)
Prior year adjustment			—		(5,638)
Net movement in General Fund			**(1,116,013)**		**627,030**
General Fund as at 1 April (restated)			**820,701**		**193,671**
General Fund as at 31 March (Schedule 3)			**(295,312)**		**820,701**

The General Fund represents the historical cost of the assets employed by the Department in its operations.

32. Reserves

Revaluation Reserve

	Note	2004-05 £000	Restated 2003-04 £000
Balance as at 1 April (restated)		4,756	72,258
Restatement		—	(106)
Arising on revaluation during the year (net)		6,541	762
Transferred to General Fund in respect of realised element of Revaluation Reserve	31	(1,796)	(68,158)
Balance as at 31 March		**9,501**	**4,756**

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

Government Grant Reserve

	Note	2004-05 £000	Restated 2003-04 £000
Balance as at 1 April (restated)		54	71
Amortisation of Reserve	7	(17)	(17)
Balance as at 31 March		**37**	**54**

33. Notes to Schedule 5

Schedule 5 provides an analysis of expenditure against the five objectives that underpin the Department's aim.

Administration costs have been allocated to objectives in accordance with the Department's normal management accounting practices, wherever possible, or have been allocated in the same proportions as programme expenditure. The Department's capital is employed exclusively for administration purposes. Its allocation between objectives is, therefore, assumed to be the same as the allocation of administration costs between objectives. There are no programme costs attributed to Objective 5 as Modernisation consists purely of administration costs.

Programme grants and other current expenditure have been allocated as follows:

	2004-05 £000	Restated 2003-04 £000
Objective 1 (Children)	3,628,050	4,977,340
Objective 2 (Work)	28,648,574	27,740,644
Objective 3 (Pensions)	66,075,493	59,656,612
Objective 4 (Disabled)	13,878,710	13,079,968
Objective 5 (Modernisation)	—	—
	112,230,827	**105,454,564**

For simplicity, most benefits have been allocated to a single objective that is matched most closely, even if the benefit expenditure could be considered attributable to more than one objective. Only Income Support, Housing / Council Tax Benefit, Severe Disablement Allowance and the Social Fund grant have been split between objectives. These payments have been apportioned across the relevant objectives based upon statistical analysis of the actual expenditure during the year.

The principal benefits allocated to the Department's objectives are therefore:

Objective 1: Income Support (Child Element)

Objective 2: Income Support, JSA, Incapacity Benefit, Housing / Council Tax Benefit, Statutory Benefits

Objective 3: Retirement Pension, Income Support, Housing / Council Tax Benefit, Winter Fuel Payment

Objective 4: Disability Living Allowance, Attendance Allowance, Carers Allowance

Social Fund loans are not included in net operating costs and are not, therefore, included within Schedule 5. For information purposes, outstanding Social Fund loans of £679 million (2003-04 £631 million) can be allocated to the Department's objectives as follows:

	2004-05 £000	Restated 2003-04 £000
Objective 2	678,923	630,526
Total	**678,923**	**630,526**

34. Capital Employed by Departmental Aim and Objectives at 31 March 2005

	2004-05 Capital
	£000
Aim:	
Objective 1	(73,902)
Objective 2	(80,776)
Objective 3	146,439
Objective 4	(290,080)
Objective 5	12,545
Total	**(285,774)**

35. Capital Commitments

	31 March 2005	Restated 31 March 2004
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	34,153	26,258

36. Commitments under Non-PFI Leases

Operating Leases

	31 March 2005		Restated 31 March 2004	
	Land & Buildings	Other	Land & Buildings	Other
	£000	£000	£000	£000
At 31 March the Department was committed to making the following payments during the next year, analysed according to the period in which the lease expires:				
Expiry within 1 year	835	1,126	778	1,348
Expiry after 1 year but not more than 5 years	1,704	3,758	1,651	4,874
Expiry thereafter	6,734	106	11,647	107
	9,273	**4,990**	**14,076**	**6,329**

Finance Leases

	31 March 2005	Restated 31 March 2004
	£000	£000
At 31 March the Department's obligations under finance leases are as follows:		
Rentals due within 1 year	174	186
Rentals due after 1 year but not more than 5 years	—	174
	174	**360**
Less interest element	—	(2)
	174	**358**

37. Commitments under PFI contracts

Off-Balance Sheet

The Department has entered into various contracts let under the Private Finance Initiative (PFI) which have been assessed under FRS 5 as being off the Department's balance sheet, the majority of risks having been transferred to the supplier. The capital value of each, reported below, is the value of any hardware and software purchased and capitalised by the service provider specifically in connection with the services detailed in the contract.

The Department has entered into a PFI Partnership Agreement under which the former DSS transferred ownership and management of its Estate to a private sector partner, in exchange for the provision of fully serviced accommodation. The contract runs from 1 April 1998 to 31 March 2018. The capital value of the contract is £316 million.

The Strategic Outsourcing Business Allocation is a contract awarded to the Affinity consortium (EDS, IBM and Pricewaterhouse Coopers) and runs from 1 September 2000 to 31 August 2010. The estimated capital value of the contract is £35.4 million.

The Advanced Telephony Business Allocation is a contract awarded to the Arcway (BT Syntegra) consortium and runs from April 2003 to March 2008. The estimated capital value of this contract is £87.1 million.

The Business Allocation for the provision of Wide Area Network Services is a contract awarded to the Arcway consortium in November 2000. The contract period is for five years from the commencement of service, that is from 1 June 2001 to 31 May 2006. The estimated capital value of the contract is £13.1 million.

The Department has entered into a contract with EDS, on the CSA's behalf, for the design and supply of a replacement to the Child Support Computer System (CSCS). This contract was one of the first to be let under the ACCORD framework for the design and supply of IT services for the Department. The contract runs from 8 August 2000 to 31 August 2010. The capital value of the contract is £3 million.

The Pensions Forecasting System (PFS) is a further contract awarded to the Affinity consortium. This contract runs from June 2002 to December 2006 and has an estimated capital value of £nil.

The New Tax Credits (NTC) is a contract awarded to the Affinity consortium and runs from December 2002 to August 2010. The estimated capital value of this contract is £11.2 million.

The Department has also entered into a contract with Northgate HR Ltd for the provision of payroll and HR managed services. The contract runs from 1 April 1999 to 30 June 2006. The estimated capital value is £5.8 million.

During 1998-99, the Employment Service (now Jobcentre Plus) entered into a PFI agreement for the provision of IT services from EDS. The contract commenced in August 1998 and is due to expire in July 2008. The estimated capital value of the contract is £217 million.

HSE have streamlined the management of its IT service arrangements by placing all of its IT services with a single strategic partner who will have responsibility for delivery and end to end service. In June 2001, HSE signed a 10 year contract with a partner (Logica CMG with Computacenter as the key sub-contractor) for the provision of information and communications technology and Information Strategy (IS) service across all HSE sites and to all HSE users. The estimated capital value of the contract is £23 million.

Charge to the Operating Cost Statement and future commitments

The total amount charged to the Operating Cost Statement in respect of off-balance sheet PFI transactions and the service elements of on-balance sheet PFI transactions was £1,047.2 million (2003-04 £738.4 million) (see Note 4), and the payments to which the Department is committed next year, analysed by the period during which the commitment expires, are as follows:

	2005-06	2004-05
	£000	£000
Expiry within 1 year	42,889	16,607
Expiry after 1 year but not more than 5 years	440,739	298,953
Expiry thereafter	735,569	917,144
	1,219,197	**1,232,704**

On-Balance Sheet

With effect from 28 October 2004, Health and Safety Laboratories (HSL) took occupation of serviced accommodation for laboratory and support functions provided under a 32 years and 29 weeks term 'design, build, finance and operate' contract with ICB Ltd. The balance of the risks and rewards of ownership of the property, situated at Harpur Hill, Buxton, is borne by HSL and hence the buildings and furniture provided are included in HSL's balance sheet as fixed assets. The liability to pay for these assets is in substance a finance lease obligation (see Note 27). Contractual payments comprise an imputed finance lease charge and a service charge.

Imputed finance lease obligations under on-balance sheet PFI contracts

	2005–06
	£000
Rentals due within one year	3,910
Rentals due after one year but within five years	19,381
Rentals due thereafter	183,187
Sub total	206,478
Less interest element	(148,871)
Total	**57,607**

38. Other financial commitments

The Department has entered into non-cancellable contracts (which are not leases or PFI contracts) with Liberata UK Ltd for payment processing services, and with EDS for software, IT support and Logistics Support outside of the scope of any PFI contracts in relation to the Digital Office Infrastructure end-user computing project. At 31 March the payments to which the Department is committed during 2005-06, analysed by the period during which the commitment expires, are as follows:

	2005-06	2004-05
	£000	£000
Expiry within 1 year	47,990	23,999
Expiry after 1 year but not more than 5 years	39,368	58,884
Expiry thereafter	—	18,339
	87,358	**101,222**

39. Contingent Liabilities disclosed under FRS 12

Child Support Agency debt

From April 1995 some debt has been deferred and will not be recoverable from clients provided certain conditions are met. This could result in the Child Support Agency taking over such debt from non-resident parents. In 2004-05, £0.5 million (2003-04, £1.21 million) was paid by the Agency to parents with care under this arrangement. The maximum potential liability at 31 March 2005 is £31.0 million (31 March 2004, £33.7 million), subject to all cases meeting the criteria. As it is not practicable to estimate the amount that may be paid out, no provision has been made in the accounts.

In a judicial review brought by a parent with care under the Human Rights Act 1998, it was judged that the parent with care's human rights had not been breached, but that they can apply for damages under the Human Rights Act, where the Secretary of State has failed, unreasonably, to enforce the collection of maintenance due. The Agency lodged a successful appeal against this decision and the parent with care subsequently lodged an appeal to the House of Lords. The parent with care lost their appeal (decision 14 July 2005), with the House of Lords ruling in favour of the Secretary of State. The parent with care has six months from the date of the decision to lodge an Appeal with the European Court. As the outcome of this case cannot be predicted any consequential obligation cannot be measured with sufficient reliability to enable a value to be recognised in the accounts.

Parklands

Due to a structural problem, the Department has a future liability to fund the reconstruction of one of its buildings. All legal implications relating to this liability have been resolved, and it has been determined that this will be funded through Departmental resources.

Remploy Limited

Jobcentre Plus has given formal guarantee in respect of a bank overdraft for Remploy Limited, an Executive Non-Departmental Public Body. The guarantee is up to a maximum of £15 million. As at 31 March 2005, £14.3 million of the overdraft facility had been utilised.

Better Government for Older People (BGOP)

This is an initiative which is funded by several consortium partners, with DWP providing the largest proportion of funds by way of Grant-in-Aid (see Note 13). Since BGOP has no legal identity, the usual 'Financial Memorandum' is replaced by a 'Consortium Agreement' that has Treasury approval. In addition to the funding which DWP provides, we have also agreed to indemnify Help the Aged, the host organisation, against any losses arising from BGOP activity to the sum of £1 million in any one calendar year. As the 'Consortium Agreement' year runs from October to September, this could amount to £2 million in totality.

Indemnities

The former Department for Education and Employment Ministers gave their agreement that the former Training and Enterprise Councils could be offered indemnities in respect of certain liabilities that arose or continued after the contractual relationship with Government ended on 25 March 2001. The purpose of these indemnities was to give the former Training and Enterprise Council Directors, or a liquidator, sufficient assurances to conclude that relationship and either return residual reserves owing to the Secretary of State, or distribute these with the Secretary of State's agreement at the earliest opportunity. Responsibility for these contingent liabilities transferred to Jobcentre Plus on 1 April 2002 from the Employment Service.

Consequently, Jobcentre Plus has agreed to offer indemnities of up to £12 million in respect of existing contracts with the former Training and Enterprise Councils that were novated as a result of the former Training and Enterprise Council's wind up, or in respect of repayments claimed following audit of past contract activity.

Employment Tribunals

Following the ruling of the Employment Appeal Tribunal in the lead dress standard case, the Public and Commercial Services Union has withdrawn its support for further action. Consequently the 7,000 plus compensation claims that were outstanding reduced to less than 4,000 and this figure is expected to reduce further. Due to uncertainty regarding the outcome of the discussions and size of any financial remedy it is not possible to provide a reliable estimate of the financial effect.

HSE is currently defending two equal-pay cases. In October 2003, HSE successfully appealed at an Employment Appeal Tribunal against an Employment Tribunal decision handed down in July 2002. That appeal was subject to cross appeal and in October 2004 the Court of Appeal referred a point of law to the European Court of Justice. Depending upon the outcome of that reference, the case could be decided in HSE's favour or remitted to an Employment Tribunal to be heard again. The legal process could, therefore, continue for a considerable period of time. HSE won another equal-pay case in December 2003 as a result of the Employment Appeal Tribunal decision but that case is subject to a cross appeal from the other side, which has been stayed pending the outcome of the first case. If HSE were to lose these cases, the financial consequences would depend on the nature of the final judgement in relation to the two employees who brought the cases and the degree to which the judgements would apply more widely in HSE.

Vaccine Damage Payments

Important changes to the Vaccine Damage Payments Scheme have been introduced. The level of disablement that is defined as severe has been reduced from 80% to 60% and the period of time during which a claim can be made has been extended.

These changes mean that some people who have been disallowed in the past may be able to make another claim under these new rules. These further claims had to be received by 16 June 2005. All of the 389 claims received by this deadline were rejected. As they carry appeal rights there is no time limit for requesting a Vaccine Damage Appeal it can be 10 years or more before they decide to go ahead. It is not currently possible to estimate the value or success of these claims and so no provision has been made in these accounts.

ESF Repayments

The Department has a potential liability in respect of ineligible claims for ESF programmes that operated during 1994-99. The Department estimates that it is highly likely that we will be unable to claim from the European Commission £13.7 million (see Note 29b) already paid to contractors and a provision for this has been created in the accounts. The Department is negotiating a final settlement with the European Commission and there is the potential that a further liability could arise, however this figure cannot be estimated with any certainty at this time.

Deficiency Notices

Deficiency Notices were not sent out for the tax years 1996-97 to 2001-02. Her Majesty's Revenue and Customs (formerly Inland Revenue) has contacted those customers of working age who may be affected by this. The Department is currently in the process of contacting approximately 470,000 pensioner customers affected by the suspension of deficiency notices. Customers who reached State Pension age between 6 April 1999 and 24 October 2004 (inclusive) are being invited to consider paying voluntary contributions to provide them with the opportunity to improve their basic State Pension, or qualify for one for the first time.

As yet, the level of take up cannot be estimated with sufficient reliability to enable a value to be determined.

Child Support Computer System (CSCS)

The Department is in commercial negotiations with EDS, the supplier of the Child Support 2 computer system, around the cost of remedial work on the system. At the balance sheet date no confirmed liability has been agreed.

The Rent Service

There are a number of legal claims against The Rent Service, the outcome of which cannot at present be stated with certainty. None of these claims has been settled. A cost of £77,000 has been estimated based on previous experience of similar claims. A cost of £15,000 has also been estimated for two pending Employment Tribunal cases. These costs have not been provided for in these financial statements.

40. Contingent Liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability

Quantifiable

The Department has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of FRS 12 since the likelihood of a transfer of economic benefit in settlement is too remote.

	1 April 2004	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2005
	£000	£000	£000	£000	£000
Intention To Proceed	6,464	—	—	(5,149)	1,315
Letters Of Comfort	12,034	93,278	—	(77,934)	27,378
Other	5,000	—	—	—	5,000
	23,498	**93,278**	—	**(83,083)**	**33,693**

Explanation of movements

The items comprising these figures are reported as Contingent Liabilities for internal reporting purposes only and refer to instances where commercial cover has been provided to a supplier prior to contract signature. Although quantifiable, they have arisen within the normal course of business; the single exception to this is the £5 million amount included as Other, which was also reported last year. It refers to an estimate of liability should potential legal proceedings take place with a supplier following a dispute with the former Employment Services Department. However, the likelihood of this liability actually arising is considered remote and has not been disclosed under FRS 12.

Prior to contract signature, by far the most common instrument used by the Department to provide commercial cover to a supplier for work to proceed is the Letter Of Comfort (LOC). When the contract is subsequently signed, the LOC is subsumed into the contract and the LOC is said to have lapsed. This was the case with all such LOCs that ended during 2004-05, which have been categorised above as Obligations expired in year. Had work not proceeded, the Department would have been required to pay the supplier concerned under the appropriate LOC, where the liability would be said to have crystallised. This did not occur in any instance.

Similarly, an Intention To Proceed (ITP) is a promise to pay the supplier, but only if the services concerned are not actually procured and ordered. When the procurement is complete, the ITP lapses and the supplier submits an invoice for the appropriate service. The ITPs showing under Obligations expired in year all lapsed following the Department's purchase of the services concerned.

41. Related Party Transactions

The Department for Work and Pensions is the parent of The Pension Service, Jobcentre Plus, The Rent Service, Disability and Carers Service, the Child Support Agency, the Appeals Service, the Occupational Pensions Regulatory Authority, the Pensions Compensation Board, the Disability Rights Commission, the Health and Safety Commission and Executive, Remploy Ltd, the Independent Review Service for the Social Fund and the Office of the Pensions Ombudsman. The Department is also responsible for the Social Fund and the European Social Fund. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition, the Department has had a number of transactions with other Government Departments, other Central Government Bodies, Local Authorities and some charitable organisations. Most of these transactions have been with the Office of Paymaster General (OPG), Post Office Counters Limited, the British Broadcasting Corporation, the Department of Health, the Northern Ireland Social Security Agency, the Ministry of Defence, HM Revenue and Customs, the Treasury Solicitor and the Department for Education and Skills.

No Minister, Board member, key manager or other related party has undertaken any material transactions with the Department during the year.

42. Financial Instruments

FRS 13, *Derivatives and other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the Department is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Department has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted.

Liquidity Risk

The Department's net revenue resource requirements are financed by resources voted annually by Parliament, just as its capital expenditure largely is. The Department is not, therefore, exposed to significant liquidity risks.

Foreign Currency Risk

Due to the time delay between preparation of claims and receipt of funds in respect of the European Social Fund, we are exposed to the movement in the Euro/Sterling exchange rate. Other than in this situation, the Department's exposure to foreign currency risk is not significant.

Interest Rate Risk

100% of the Department's financial liabilities carry nil or fixed rates of interest and are not therefore exposed to significant interest rate risk.

Financial Liabilities

As at 31 March 2005 the Department's gross financial liabilities totalled £575.7 million (31 March 2004 - £347.9 million), all of which related to non-interest bearing financial liabilities. The weighted-average period to maturity was 13.7 years (31 March 2004 - 7.0 years).

Financial Assets

As at 31 March 2005 gross financial assets totalled £1,578.0 million (31 March 2004 - £1,027.7 million) of which £908.5 million (31 March 2004 £854.9 million) relates to non-interest bearing financial assets. The weighted-average period to maturity was 4.7 years (31 March 2004 - 3.7 years).

£0.6 million (31 March 2004 - £1.2 million) related to fixed-rated financial assets. The weighted-average period for which the rate is fixed was 2.4 years (31 March 2004 - 2.7 years), and the weighted-average interest rate was 6% (31 March 2004 - 4.4%).

Fair Values

Fair values of financial assets and liabilities are not significantly different from the book values since, in the calculation of book values, the expected cash flows have been discounted by the real rate set by Treasury of 3.5% (2003-04 3.5%).

43. Third-Party Assets

The CSA Client Funds account is outside the Departmental boundary and is accounted for on a receipts and payments basis. The movement of balances on the account through the year was as follows:

	2004–05	2003–04
	£000	£000
Receipts	602,873	601,332
Bank Interest	950	621
	603,823	601,953
Less payments to:		
Persons with care	471,758	446,791
Secretary of State	119,199	143,909
Non-resident parents/employers	8,563	10,139
The Agency (CSA fees and court orders)	3	4
Total payments	599,523	600,843
Net receipts	4,300	1,110
Balance as at 1 April	19,499	18,389
Balance as at 31 March	**23,799**	**19,499**

Statement of Balances at 31 March

	31 March 2005	31 March 2004
	£000	£000
Funds awaiting clearance	9,610	8,487
Cleared funds awaiting distribution	14,189	11,012
Balance in bank account	**23,799**	**19,499**

44. Payment accuracy

The Department aims to pay the right money to the right person at the right time. It seeks to provide safeguards against fraud and abuse and ensure that its systems detect and recover overpayments quickly and accurately. The Department's security strategy has the aim of addressing security and control in all relevant areas to achieve a demonstrable and sustained reduction in the level of fraud and error and in this respect the DWP is in the forefront of social security organisations in its attempts to estimate a monetary value of fraud and error.

The Department's method of estimating benefit fraud and error can be broadly split into three categories:

Estimated through continuous sampling exercises (Income Support/Jobseekers Allowance/Pension Credit/Housing Benefit).

Estimated through one-off snapshot exercises (e.g. Disability Living Allowance and support by annual review of error e.g. Incapacity Benefit/Retirement Pension).

No reliable figure for fraud and error previously estimated (e.g. Council Tax Benefit/Attendance Allowance).

These are combined to produce overall estimates.

During 2004-05 changes have been made to the estimation methodology. One significant change resulted from the 2005 DLA review, published in July 2005, identifying cases where the change in customer's needs have been so gradual that it would be unreasonable to expect them to know at which point their entitlement to DLA might have changed. The value of reduced entitlement in these cases to DLA and related premiums in other benefits is estimated at £0.7 billion and is not included in the global fraud and error estimate. A similar figure was previously included in the global estimate of fraud and error of £3 billion reported in the 2003-04 Resource Account.

The Department estimates that there was approximately £2.6 billion overpaid through fraud and erorr in social security benefit payments in 2004-05. This represents approximately 2.3% of total benefit payments, of which £0.9 billion (0.8%) is fraud, £0.8 billion (0.7%) is customer error and £0.9 billion (0.8%) is official error.

An analysis of these sums between benefits is set out in the table below.

Total estimates of benefits overpayments due to fraud and error 2004-05

	Expend 2004-05	Fraud and Error		Fraud		Customer Error		Official Error	
Regularly Reviewed									
Income Support	£10.0 bn	£560 m	5.6%	£250 m	2.5%	£100 m	1.0%	£210 m	2.1%
Jobseeker's Allowance	£2.2 bn	£180 m	8.2%	£70 m	3.0%	£40 m	1.7%	£80 m	3.5%
Pension Credit	£6.1 bn	£290 m	4.9%	£60 m	1.0%	£100 m	1.7%	£130 m	2.2%
Housing Benefit[1]	£13.1 bn	£640 m	4.9%	£210 m	1.6%	£280 m	2.2%	£140 m	1.1%
Periodically Reviewed									
Disability Living Allowance[2]	£8.1 bn	£150 m	1.9%	£40 m	0.5%	£50 m	0.6%	£60 m	0.7%
Retirement Pension[3]	£48.8 bn	£60 m	0.1%	£30 m	0.1%	£0 m	0.0%	£30 m	0.1%
Carer's Allowance	£1.1 bn	£60 m	5.5%	£40 m	3.9%	£10 m	1.0%	£10 m	0.6%
Incapacity Benefit[3]	£6.7 bn	£80 m	1.2%	£10 m	0.1%	£20 m	0.2%	£50 m	0.8%
Instrument of Payment fraud		£40 m		£40 m					
Interdependencies[4]		£30 m		£10 m		£10 m		£10 m	
Unreviewed									
Unreviewed (ex CTB)[5]	£11.4 bn	£310 m	2.7%	£100 m	0.9%	£100 m	0.9%	£100 m	0.9%
Council Tax Benefit[6]	£3.6 bn	£180 m	4.9%	£60 m	1.6%	£80 m	2.2%	£40 m	1.1%
Total[2, 7]	**£110.9 bn**	**£2.6 bn**	**2.3%**	**£0.9 bn**	**0.8%**	**£0.8 bn**	**0.7%**	**£0.9 bn**	**0.8%**

Notes:
Individual estimates have been uprated in line with 2004-05 expenditure and may differ from published values. Figures expressed as percentages (%) give the overpayments as a percentage of the benefit paid out in the year.

[1] The Housing Benefit estimates in this table include approximations for the purposes of producing an overall fraud and error figure. The estimates in the table, and particularly the fraud and error breakdown, will therefore be different from those published previously as National Statistics.

[2] The 2004-05 DLA National Benefit Review identified cases where the change in customer's needs have been so gradual that it would be unreasonable to expect them to know at which point their entitlement to DLA might have changed. These cases do not result in a recoverable overpayment as we cannot quantify or define when the customer's change occurred. Because legislation requires the Secretary of State to prove that entitlement to DLA is incorrect, rather than requiring the customer to inform us that their needs have changed, cases in this subcategory are legally correct. The difference between what claimants in these cases are receiving in DLA and related premiums in other benefits and what they would receive if their benefit was reassessed is estimated to be around £0.7 billion (+/− £0.2 billion). This figure is not included in the total above, but a similar figure was included in the global fraud and error figure of £3 billion reported in the Resource Account for 2003-04.

[3] Official error rates have been updated with estimates from the 2003-04 measurement exercise.

[4] Overpayments due to knock-on effects between loss of DLA component entitlement and premiums on income-related benefits.

[5] The estimated rate of fraud and error on unreviewed benefits, for which we have no reliable review information, has been set at 2.7% and divided equally among fraud, customer error and official error.

[6] Fraud and error on CTB has not been measured before and is assumed here to be equal to fraud and error rates on HB.

[7] Although quoted to the nearest £0.1 billion, there are considerable uncertainties around the total estimates (95% confidence intervals of between +/− £0.2 billion and +/− £0.3 billion).

[8] Individual figures may not add across to total fraud and error figures due to rounding.

As a result of the significant changes in methodology the 2003-04 figures below have been re-stated on the same basis as 2004-05.

Total estimates of benefits overpayments due to fraud and error 2003-04

	Expend 2003-04	Fraud and Error		Fraud		Customer Error		Official Error	
Regularly Reviewed									
Income Support	£10.2 bn	£590 m	5.8%	£300 m	3.0%	£110 m	1.0%	£190 m	1.8%
Jobseeker's Allowance	£2.6 bn	£230 m	9.0%	£90 m	3.4%	£50 m	1.8%	£100 m	3.8%
Pension Credit	£4.9 bn	£260 m	5.4%	£60 m	1.3%	£100 m	2.0%	£100 m	2.1%
Housing Benefit[1]	£12.4 bn	£610 m	4.9%	£210 m	1.7%	£240 m	1.9%	£150 m	1.3%
Periodically Reviewed									
Disability Living Allowance[2]	£7.6 bn	£140 m	1.9%	£40 m	0.5%	£50 m	0.6%	£60 m	0.7%
Retirement Pension[3]	£46.5 bn	£50 m	0.1%	£30 m	0.1%	£0 m	0.0%	£20 m	0.1%
Carer's Allowance	£1.0 bn	£60 m	5.5%	£40 m	3.9%	£10 m	1.0%	£10 m	0.6%
Incapacity Benefit[3]	£6.7 bn	£80 m	1.2%	£10 m	0.1%	£20 m	0.2%	£50 m	0.8%
Instrument of Payment fraud		£70 m		£70 m					
Interdependencies[4]		£30 m		£10 m		£10 m		£10 m	
Unreviewed									
Unreviewed (ex CTB)[5]	£10.6 bn	£290 m	2.7%	£100 m	0.9%	£100 m	0.9%	£100 m	0.9%
Council Tax Benefit[6]	£3.3 bn	£160 m	4.9%	£60 m	1.7%	£60 m	1.9%	£40 m	1.3%
Total[2, 7]	**£105.8 bn**	**£2.6 bn**	**2.4%**	**£1.0 bn**	**1.0%**	**£0.7 bn**	**0.7%**	**£0.8 bn**	**0.8%**

Errors resulting in Underpayments

Reviews also provide data on underpayments in IS, JSA and MIG / Pension Credit. The estimates of total underpayments from claimant fraud, claimant error and official error in the year to September 2004 are £115 million for IS (1.1% of IS expenditure), £18 million for JSA (0.7% of JSA expenditure) and £120 million for MIG / Pension Credit (2.1 % of MIG / Pension Credit expenditure). The equivalent figures for the year to September 2003 are £129 million for working age IS (1.2% of expenditure), £30 million for JSA (1.1% of expenditure) and £68 million for MIG / Pension Credit (1.5% of expenditure).

The equivalent information for underpayments of Housing Benefit is only available for the 85% of the HB expenditure that is within the scope of the HBR sample. The estimate for the twelve months to September 2004 is around £110 million (1.0% of the expenditure within the scope of the HBR sample). There are no current plans to calculate an estimate for the whole of the HB expenditure. It should be noted that these estimates for underpayments are less comprehensive than those for overpayments.

Housing Benefit

The Department's strategy for encouraging local authorities to reduce the levels of fraud and error can be summarised under the following headings:

Prevention - the primary tool for preventing fraud and error is the Verification Framework, which specifies standards of good practice in securing the gateway to benefit. The Department has continued to work closely with local authorities, which have, as yet, not applied for funding to introduce the Verification Framework. At the end of 2004-05 there were only 15 (out of 408) local authorities that were not either compliant or in the process of becoming compliant with at least one part of the Verification Framework.

Correction - risk based reviews are used to target authorities' efforts on those cases most likely to become incorrect and data-matching referrals are used to target recorded anomalies between different systems.

Deterrence - the Security Against Fraud and Error scheme provides additional funding to local authorities in reward for proactive interventions which results in the identification of incorrectness in benefit claims, putting those claims right and the administration of sanctions and prosecutions.

45. Entities within the Departmental boundary

The entities within the boundary during 2004-05 were as follows:

Supply-financed:	The Pension Service Jobcentre Plus Child Support Agency Appeals Service The Rent Service Disability and Carers Service DWP Head Office and Corporate and Shared Services
Non-executive NDPBs:	None
Crown NDPBs:	Health and Safety Commission and Executive
Other entities:	None

The annual reports and accounts of the Supply-financed Agencies and Crown NDPBs are published separately.

46. Analysis of Net Operating Cost by Spending Body

	2004-05 Outturn	2003-04 Outturn
	£000	£000
DWP Head Office and Corporate and Shared Services	112,827,456	106,182,611
Child Support Agency	325,619	322,983
Jobcentre Plus	4,235,176	4,055,626
Appeals Service	66,221	72,906
The Pension Service	830,552	760,809
Health and Safety Commission and Executive	215,544	197,909
The Rent Service	39,417	39,841
Disability and Carers Service	120,415	—
	118,660,400	**111,632,685**

The Disability and Carers Service (DCS) was established on 1 November 2004. Comparatives in respect of the DCS are included within the Outturn figure for the DWP Head Office and Corporate and Shared Services.

47. Accountability Notes

Non-Contributory & Jobseekers Allowance (Contributory) Benefits

Losses Statement

	£000
Total 403,678 cases, to the value of £119.438 million	

Details

General Losses

General losses are cash losses due to irrecoverable overpayments of benefits recorded during the year. In Income Support and Jobseeker's Allowance cases, where the claimant's good faith was not in doubt and where recovery action was not appropriate, the recorded overpayment has been restricted to the net amount overpaid since the beginning of the financial year preceding that in which the overpayment was discovered. These losses are identified by normal working practices or by various measures introduced under the "performance management regime".	39,211

£000

Write-off of Debt Through Easement

The Department's overpayment initiative, agreed with Treasury, enables the write-off of non-recoverable debt using estimating procedures. The aim is to re-target resources to more cost effective recovery. During 2004-05 the package dealt with 210,765 cases involving overpayments of Vote benefits writing off £78.674 million in total. These overpayments would not have been recoverable under Social Security legislation. They were caused primarily by official error. 78,674

Contractor Fraud

Staff employed by contractors, responsible for the delivery of some departmental services, perpetrated fraud amounting to £34,141. Some company employees submitted false claims for which the contractor received increased funding from the Department. Operational checks by offices found that attendance and timesheets had been altered or completed incorrectly thereby enabling the providers to receive full/additional funding.

The Department is continuing to scrutinise claims more closely and a number of new checks/controls have been put into place. Of the £34,141 fraudulently obtained, all the money has been recovered leaving a loss to public funds of £Nil. —

Contractor Fraud 2003-04 update

In the 2003-04 Departmental Accounts Contractor Fraud amounting to £778,526 was identified. These were cases where all investigations had been completed and, of this amount, £667,316 was recovered. In 2004-05 additional investigations relating to 2003-04 cases were concluded. The reasons for the investigations were that some company employees submitted false claims for which the contractor received increased funding from the Department. Operational checks by offices found that attendance and timesheets had been altered or completed incorrectly thereby enabling the providers to receive full/additional funding.

In addition to the cases concluded in 2003-04, the cases carried forward to conclusion in 2004-05 established fraud amounting to £744,212.

The Department is continuing to investigate some cases from 2003-04 along with cases from 2004-05.

Of the £744,212 concluded as being fraudulently obtained £679,812 has been recovered leaving a loss to public funds of £64,400. 64

Duplicate Christmas Bonus

Current information indicates that overpayments of Christmas Bonus of approximately £172,000 have been made in 2004-05, compared with £154,000 (re-stated) in 2003-04. The 2003-04 figure (£241,000) was re-stated to remove data relating to Northern Ireland Social Security Agency that had erroneously been included in previous Departments figures. The duplications occurred because, although a customer can only qualify for one Christmas Bonus payment each year, more than one benefit system may generate that payment.

The approach to reducing these duplicate payments is in two parts. Firstly, during 2000-01 an enhancement was made to the Programme Accounting Computer System (PACS) to enable a scan to be run each February which identifies the duplicate payments of Christmas Bonus that have occurred from November to January. Secondly, work on future computer systems is to be developed to prevent these duplicates, prior to issue of payments. The Customer Information System, supported by CURAM, is expected to assist in eradicating this type of duplicate payment to customers. The implemetation of CURAM is currently planned for 2007, as part of the Government's modernisation programme. 172

	£000
Internal Fraud	
During the year there were a number of cases identified either by the whistle blower hotline or internal checks, where the employee was found to have either abused the payment process or to be incorrectly claiming benefit whilst working for the Department. In the cases of abuse of payment process, investigations established that a member of staff was aiding a third party to incorrectly claim benefits. Internal investigations have recommended changes in internal procedures to reduce the risk of similar frauds in the future. Four members of staff have either resigned or been dismissed. Internal action has been taken against the remaining members of staff. The total loss to the Department for all Internal Fraud was £11,789. To date no monies have been recovered.	12
Organised Fraud	
At the end of the 2004-05 financial year the Counter Fraud Investigation Division had investigated and brought prosecutions from 12 operations which individually involved an amount of fraud before recoveries of over £100,000. Some of the operations also include National Insurance Fund benefits and these are therefore reported in the National Insurance Fund Account.	
The combined total fraud before recoveries in respect of non-contributory benefits was £890,680. All of these fraud cases involved organised or systematic abuse of the benefit system and involved either instrument of payment fraud or multiple identity fraud. In total, 25 people were prosecuted. Of the 25 people, one was found not guilty, the remainder receiving sentences ranging from 120 hours Community Service to imprisonment of 6 years. Two people received Rehabilitation Orders. Details of some of the cases are incomplete therefore the total number of people involved is unknown. No monies have been recovered.	891
Pension Credit Uprating	
As a result of the uprating of Pension Credits in 2003-04 it was noted there were a number of cases to whom an under/overpayment was made. These arose where Pension Credits and Retirement Pension were in payment together and the customer was paid 4 weekly. A scan was authorised and run in February 2005 to identify and quantify the level of under/overpayments that occurred.	
Original estimates indicated there would be some 77,000 cases where an under/overpayment occurred, but the scan identified just over 100,000 cases.	
Of the 100,000 cases, approximately 5,000 cases were identified as having been underpaid and corrective action has been taken to ensure these customers have received their full entitlement. Of the remaining 95,000 cases identified as having been overpaid, the total amount of over payment was calculated as £414,310. This amount has been referred to Treasury to be written-off as it was caused by official error.	
The system has been updated for the 2004-05 uprating exercise to enable accurate uprating of these cases.	414
Special Payments	
Total 3,719 cases, to the value of £6.743 million	

	£000

Details

Reduced Earnings Allowance/Retirement Allowance

The 2003-04 Resource Account was noted to the effect that unintended expenditure has been incurred since 1996 on Industrial Injuries Reduced Earnings Allowance (REA). In 2004-05, unintended expenditure was again incurred and is estimated (based on 2002-03 data) to be in the region of £6.5 million representing around 3,600 awards.

REA is replaced on retirement with Retirement Allowance (RA). However, where a person does not claim REA until pension age is reached and has given up employment he cannot be transferred to RA and remains in receipt of REA. This is in accordance with the law but contrary to the policy intent. Ministers are aware of the deficiency which is in primary legislation. An amendment will be considered should a suitable legislative vehicle become available. 6,500

Industrial Injuries Disablement Benefit — change of rules on diagnosis of pneumoconiosis

In 1993 a Social Security Commissioner (CSI/78/93 reported as R(I) 1/96) ruled that the Department had been applying the law incorrectly in claims for Industrial Injuries Disablement Benefit (IIDB) in respect of pneumoconiosis. This meant that some cases had been disallowed when benefit should have been awarded. This decision raised particularly difficult questions of law and medicine that required detailed consideration before the Department was in a position to respond.

In December 2001 the Department mounted a publicity campaign to identify people who might be affected. Most of the customers that benefit from the Commissioner's decision are found to be entitled to arrears from the date of the decision, 25 August 1994.

The Department continued to pay arrears throughout 2004-05, either in response to a claim, or where an underpayment was identified on review. There were 119 such awards in the 2004-05 year, generating an additional cost of £242,549 in Industrial Injuries Disablement Benefit. In the 2003-04 year the cost was £1,065,400. 243

Other Notes

Income Support Computer System fault on conversion to Direct Payment

Overpayments of Income Support and Pension Credit have occurred where a customer's method of payment was automatically converted from Order Book to Direct Payment, and where the cases held a previous Automated Credit Transfer method of payment. The fault was generated because the system incorrectly paid back to a previous method of payment and duplicated benefit already paid. Although the fault, which creates these erroneous payments, had been known for some time the number and value had been insignificant. The termination of Order Books and the migration to Direct Payments has significantly increased the number of these overpayments. To identify the scope of the problem weekly scans of the Income Support system commenced in January 2005. The scans identified 2,450 cases where an overpayment was made totalling approximately £3.375 million. Processes were put in place to ensure identified overpayments from the scans were not issued. Overpayments linked to this system fault ceased on the termination of payment by Order Book. A submission has been submitted to Ministers detailing the problem and options on recovery issues.

Until the decision on repayments has been made by Ministers, no actual loss to the Department has occurred. Until the agreement is reached, a note is included in the accounts, but no actual loss can be recorded.

£000

Overpayments arising from Child Tax Credit and Income Support Child Premium

If a customer is receiving Income Support Child Premium, and then either the customer or known partner is transferred to Child Tax Credits, any Child Premiums should be removed thereby reducing the amount of Income Support paid.

An interface was introduced to alert the Income Support Computer System when the customer or known partner started to claim Child Tax Credits. In 2004-05 a scan was conducted of the Income Support system which identified cases where the removal of the Child Support Premiums had not been carried out, resulting in overpayments of Income Support.

The Department has identified 12,701 cases where Income Support Child Premium has been overpaid due to failure to take payment of Child Tax Credits into account. An additional scan of the Income Support Computer System has identified a further 2,500 potential overpayment cases.

Scans of the Jobseekers Allowance Payment System have identified 711 potential overpayment cases.

The total potential loss to the Department is estimated at £33.883 million.

Requests for repayment, or write off will be issued once Ministers have agreed the process for handling.

Until the decision on repayments has been made by Ministers, no actual loss to the Department has occurred, therefore a note is included in the accounts, but no actual loss can be recorded.

Payments to incorrect Post Office Card Accounts

Benefit expenditure has, on occasions, been paid into incorrect Post Office Card Accounts (POCA); this is due to the incorrect information being stored on the Heritage Benefit Systems. This occurs when customers provide incorrect bank details or office staff input the information incorrectly. Where payments are made to Bank/Building Societies the payments are rejected and returned to the Department because they failed the "modulus checking system", operated by all of the major financial institutions including POCA. This checks that the sort code and account number are the same as the information received. However, in relation to payments into card accounts the modulus checking is less robust.

In 2004-05 payments totalling £5.3 million were made to incorrect card accounts. Requests by the Department have resulted in approximately £690k being returned.

Requests for repayment, or write off, will be issued once Ministers have agreed the process for handling.

Until the decision on repayment has been made by Ministers no actual loss to the Department has occurred, therefore, a note is included in the accounts, but, no actual loss can be recorded.

Housing and Related Benefits

Losses Statement

Total 14 cases, to the value of £30.817 million

The Secretary of State, in accordance with the provisions of section 140C(3) of the Social Security Administration Act 1992, may exercise his discretion in deciding as to whether, and if so by how much, the Housing Benefit and Council Tax Benefit (HB/CTB) overpaid subsidies to recover from local authorities. In the exercise of his discretion the Secretary of State has, in relation to 14 local authorities, decided to waive recovery of overpaid HB/CTB subsidy, estimated at £30,817,477, in respect of 1999-2000, 2000-01, 2001-02 and 2002-03 subsidy claims. 30,817

£000

Special Payments

There have been a number of Independent Living (Extension) Fund customers who have been paid in breach of trust from 1993 to 2002 as they did not meet the eligibility criteria set out in the Trust Deed, albeit that payments were made in furtherance of the policy intention. The overpayment has been estimated to be £13.5 million, though this figure is subject to change in light of NAO scrutiny. Agreement is being sought for write off because the payments, despite being ultra vires, nevertheless achieved the policy intention and recovery would probably be impossible as affected customers are all severely disabled and in need of financial assistance to live independently.

Social Fund

Losses Statement

Total 58,654 cases, to the value of £40.151 million

Recoverable loans impracticable to pursue (14,912 cases)	1,804
Claims for recoverable Funeral expenses abandoned due to insufficient estate (33,033 cases)	31,638
Claims for recoverable Funeral expenses abandoned because they are impossible/unreasonable to pursue (6,666 cases)	6,385
Losses due to irrecoverable overpayments recorded during the year (4,043 cases)	324

Special Payments

No Special payments occurred this year.

Extra Statutory Payments

No Extra Statutory Payments occurred this year.

National Insurance Fund

Losses Statement

Total 93,112 cases, to the value of £27.6 million

Details of cases over £100,000

Organised Fraud: At the end of 2004-05 the Counter Fraud Investigation Unit had investigated and brought prosecutions from 12 operations which each involved a loss to public funds of over £100,000. Eight of these operations included National Insurance Fund benefits. The loss to the National Insurance Fund was £434,837.80. All of these fraud cases involved organised or systematic abuse of the benefit system and involved either instrument of payment fraud or multiple identity fraud. In total 20 people were charged receiving in total nearly 29 years imprisonment.	435
Write-off of Debt through Easement: The Department for Work and Pensions overpayment initiative, agreed with Treasury, enables the write-off of non-recoverable debt using estimating procedures. The aim is to re-target resources to more cost effective recovery. During 2004-05 the package dealt with 65,302 cases involving overpayments of NI Fund benefits, writing off approximately £17.7 million. These overpayments would not have been recoverable under Social Security legislation. They were caused primarily by official error.	17,700

NIF — Special Payments

Total 7,435 cases, to the value of £3.770 million

	£000
Details	
These are mainly payments to claimants who have been wrongly advised on benefit entitlement. The number of cases for the financial year to 31 March 2005 was 3,435 (3,773 in 2003-04).	
The Australian social security agreement ended with effect from 1 March 2001. An extra-statutory payment scheme was set up to pay enhanced state retirement pension to those people with residence in Australia during the currency of the Agreement, up to 5 April 2001, who have now returned to live permanently in the UK. On 18 November 2004, the Pensions Act 2004 introduced legislation to put these extra-statutory payments on a statutory footing. In the 2004-05 financial year up to 18 November 2004, the final extra-statutory payments were made, amounting to approximately £2 million, representing around 4,000 cases (£3 million in 2003-04 representing around 4,000 cases). This was the fifth and final year that payments were made extra-statutorily.	
Administration	
Losses Statement	
Total 23,926 cases, to the value of £8.495 million	
Details of cases over £100,000	
Cash Losses	
Salary related losses reported by the Corporate Centre totalled 510 cases to the value of £113,034.	113
Non-salary related losses reported by the Corporate Centre totalled 37 cases to the value of £122,296.	122
Non-salary related losses reported by the Child Support Agency totalled 2,026 cases to the value of £409,229.	409
Cash losses of pay, allowances and Superannuation reported by the Jobcentre Plus Agency totalled 745 cases to the value of £313,002.	313
Cash losses of overpayments of benefits, grants and subsidies reported by the Jobcentre Plus Agency totalled 17,041 cases to the value of £1,579,988.	1,580
Administration Losses	
Miscellaneous net write offs reported by the Corporate Centre totalled 350 cases to the value of £13,593. Included in this figure are write backs of £100,616 and £124,794 which represent unreconcilable differences on the Departmental Paymaster General Account Balances.	14
A provision of £15.1 million was included in the 2003-04 accounts in respect of the European Social Fund (ESF). This related to payments made against the ESF 1994-99 programmes where recovery was not expected from the European Union. In preparation for the 2004-05 accounts this provision was revised and reduced to £13.7 million. In addition to the provision, a further £3,209,819 was written off during the year in respect of overpayment debts owing from providers, £3,026,753 of which had been funded by the year end, leaving an inter agency balance which is eliminated upon consolidation. This loss comprises 56 project debts from 27 different organisations.	3,210

	£000
Stores Losses	
Vehicle related losses reported by the Department for Work and Pensions totalled 883 cases to the value of £371,052. This was made up of 748 cases totalling £276,412 where DWP drivers of official vehicles were at fault and did not involve any third parties, with the remaining 135 cases totalling £96,640 where DWP drivers were at fault and a third party was involved.	371
Losses reported by the Health and Safety Executive in respect of the withdrawal and disposal of obsolete stocks of publications amounted to £506,942.	507
Claims Abandoned	
Claims abandoned, reported by the Health and Safety Executive, totalled 176 cases to the value of £129,673.	130

Special Payments

Total 30,418 cases, to the value of £11.692 million.

Details of cases over £100,000

Special Payments to staff and members of the public made by the Corporate Centre totalled 486 cases to the value of £2,051,006. Included in this figure is a payment of £350,000 in respect of Nurses Superannuation, following sex discrimination appeals by 5 nurses claiming they should have been allowed membership of the Principal Civil Service Pension Scheme from the start of their employment, but from which, as sessional nurses, they had been traditionally excluded.

Special Payments to staff and members of the public made by the Health and Safety Executive totalled 33 cases to the value of £251,701. Included in this figure is a payment of £230,000 plus £13,125 recoverable DWP benefits which was paid to an employee who was exposed to asbestos during her employment with HSE and developed mesothelioma.

Special Payments to staff and members of the public totalled 428 cases to the value of £265,610.

Special Payments to members of the public (Customer cases) totalled 28,031 cases to the value of £8,102,568.

Special Payments to members of the public (Customer cases) made by the Corporate Centre totalled 1,304 cases to the value of £909,617. Included in this figure is a payment of £589,635 made to Pensioners who did not receive the full rate of Retirement Pension, and who should have been invited to top up their National Insurance Contributions. On the introduction of the National Insurance Record System (NIRS2), this invitation was omitted and a project set up to rectify this. This resulted in the payments being made to the Pensioners for the loss of interest on their Retirement Pension.

Included in the above are:

875 ex-gratia payments totalling £108,656 which were made to customers in receipt of Disability Living Allowance or Attendence Allowance who were entitled to additional premiums as well as arrears of underpaid Income Support or Jobseeker's Allowance.

108 ex-gratia payments totalling £105,193 which were made to customers in respect of Industrial Injuries Disablement benefits where pneumoconiosis had been diagnosed.

7,520 ex-gratia payments totalling £1,679,481 which were made to customers in respect of Extra Amount for Carers payable to a Pension Credit customer/partner where they receive or have an underlying entitlement to Carers Allowance.

£000

Other Notes

Recorded in this account are losses of £2,077,735 which arose as a result of claims waived on Other Government Departments to repay to this Department monies owed for their minor occupancy of DWP accommodation under PRIME (Private Resource Initiative for the Management of the Estate). There has been no overall loss to the Exchequer.

Glossary

Administration Cost Limit

This is an overall limit applied to administration costs within the Department which should not be exceeded by the administration expenditure for the year.

Appropriations in Aid (A in A)

Expected income that arises during the normal course of business and that the Department is authorised to retain. This income is voted by Parliament in the Estimate and is available to offset against expenditure in the current financial year. Any Excess A in A over and above the authorised limit must be surrendered to the Consolidated Fund. These are included within Schedule 2 - Operating Cost Statement and disclosed separately in Schedule 1 - Summary of Resource Outturn.

Consolidated Fund

This is operated by HM Treasury at the Bank of England and is used to finance central government spending. Revenue is obtained from taxes and other sources and is collected daily into the Fund.

Cost of Capital Charge

This is a charge to reflect the opportunity cost of Government funding invested in the assets of the Department and is included to ensure that the full cost of services is reflected in departmental accounts. It is calculated at a rate of 3.5% (2003–04 3.5%) on the average net assets held by the Department (capital employed) over the year. The cost of capital charge is included in Schedule 2 and is apportioned between administration and programme costs.

Estimate

A summary of the resources and cash voted by Parliament to the Department for a particular year and against which expenditure is monitored. It is analysed by Requests for Resources, each being monitored separately.

General Fund

The General Fund represents the historic cost of the total assets less liabilities of the Department, to the extent that it is not represented by other reserves and financing items. It is included in Taxpayer's Equity in Schedule 3 - Balance Sheet.

Net Cash Requirement

The amount of cash required and authorised from the Consolidated Fund for the Department to carry out the functions specified in the Estimate. The actual cash used during the year is described as the outturn of the net cash requirement.

Net Resource Outturn

This is the net total of income and expenditure consumed by the Department during the financial year.

Non-operating Cost A in A

Comprises proceeds from sales of assets and repayment of voted loans which can be retained by the Department. These are included in Schedule 1.

Request for Resources (RfR)

This is the basic unit of Parliamentary control for which resources to the Department are granted. Each Request for Resource within the Estimate represents an accruals based measure of expected expenditure within the Department for the categories of expenditure which fall within that RfR. Schedules 1 and 2 and Note 13 analyse net resource outturn by RfR.

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