Presented pursuant to the Government Resources and Accounts Act 2000 c.20, s.6 (4)

Department for Work and Pensions

Resource Accounts 2007-08

LONDON: The Stationery Office 13th August 2008
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(For the year ended 31 March 2008)

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Contents

Annual Report

for the year ended 31 March 2008

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 in Great Britain, 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 Management Commentary (see page 8).

Departmental Boundary

In addition to the core department, the Departmental bodies that fell within the resource accounting boundary during the financial year were:

- Jobcentre Plus
- The Pension Service
- Child Support Agency (CSA)
- Disability and Carers Service (DCS)
- Health and Safety Commission and Executive (HSC/E)
- The Rent Service

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 NIF are administered by the DWP on their behalf and are included within the DWP Operating Cost Statement. These contributory benefit costs, together with their associated costs of administration, are recovered by DWP from the NIF and are not included within the Summary of Resource Outturn in the Statement of Parliamentary Supply. See also Note 1.2.

European Social Fund

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

Non-Departmental Public Bodies

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

- The Independent Living Funds;
- The Pensions Regulator (TPR);
- The Pensions Advisory Service (TPAS);
- The Pension Protection Fund (PPF);
- Disability Rights Commission (DRC) (until 30 September 2007, transferred to Government and Equalities Office on 1 October 2007);
- Personal Accounts Delivery Authority (from 1 March 2008); and
- Working Ventures UK

Remploy Ltd

The Department pays grants in aid to Remploy Ltd to help meet the additional costs associated with employing very large numbers of disabled people. Remploy Ltd is a private company limited by guarantee, whose net liabilities are guaranteed by the Secretary of State for Work and Pensions. It also has status as an Executive Non-Departmental Public Body and Public Corporation. Remploy Ltd falls outside of the Departmental boundary.

Post Balance Sheet Events

On 1 April 2008, the Pesticides Safety Directorate (an Executive Agency of the Department for Environment, Food and Rural Affairs (DEFRA)) transferred to the Health and Safety Executive becoming an internal agency of HSE. Also, on 1 April 2008, the Health and Safety Commission (HSC) and Health and Safety Executive (HSE) merged to form a single national regulatory body, the Health and Safety Executive, responsible for promoting the cause of better health and safety at work.

On 1 April 2008, the e-Delivery Team (eDT) joined the Department from the Cabinet Office. The team are responsible for the Government Gateway, an information technology application for identity verification and secure access to transactional online public sector services.

On 1 April 2008, the Government's digital channel, Directgov, transferred its operations from the Central Office of Information to the Department.

On 1 April 2008, The Pension Service and Disability & Carers Service merged to become the Pension, Disability & Carers Service, which will provide a more cohesive service to our customers.

On 5 June 2008, the Child Maintenance & Enforcement Commission was formed as a Crown Non-Departmental Public Body following Royal Assent. This body will replace the Child Support Agency.

On 1 April 2009, The Rent Service will transfer from the Department to the Valuation Office Agency, an executive agency of HM Revenue and Customs.

The Department's financial statements are laid before the Houses of Parliament by HM Treasury. FRS 21 requires the Department to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the Department's management to HM Treasury.

The authorised date for issue is 21 July 2008.

Corporate Governance

Overview

The Department's overarching governance arrangements are contained in the Departmental Framework. The Departmental Framework sets out how DWP is organised and managed to deliver Welfare Reform and its strategic objectives. The Departmental Framework can be accessed from the DWP web site. http://www.dwp.gov.uk/aboutus/departmental_framework.asp

Departmental decision-making

The Department's decision-making arrangements are fully in compliance with the intent of HM Treasury's Code of Good Practice in Central Government Departments.

Departmental Board

The Departmental Board (DB) supports the Head of Department and is responsible for scrutinising, challenging and providing advice on delivery strategies, plans and programmes, performance and governance arrangements. It has a key role in considering risks to achievement of the Department's objectives, ensuring financial information is reliable and controls robust. The DB comprises 50% Executive and 50% Non-Executive Directors and its role is primarily advisory and supervisory although it may provide recommendations and direction for consideration by the Head of Department and the Executive Team (ET).

Departmental Audit Committee

The Departmental Audit Committee (DAC) is a permanent sub-committee of the Departmental Board and is chaired by a Non-Executive DB Director. The membership of the Departmental Audit Committee is exclusively Non-Executives in line with Treasury guidance set out in the Audit Committee Handbook.

DAC provides an independent view on the appropriateness, adequacy and value for money of the Department's governance, risk and assurance processes. It provides constructive challenge, opinion and advice, taking account of known and emerging risks and reports to the Principal Accounting Officer, at least annually, on the effectiveness of the Department's Control environment.

DWP has in place an integrated Audit Committee structure with effective alignment between the DAC, the Shared Services Audit Committee and the Agency Audit Committees (AACs), supported by clearly defined arrangements for the escalation of strategic and cross cutting issues to DAC. This framework provides a cohesive approach to assurance across DWP.

Non-Executive Directors

The Head of Department appoints Non-Executive Members to the Departmental Board, the Departmental Audit Committee and other Departmental committees. Their role is primarily to:

- Provide an independent advisory, support and constructive challenge to the Head of Department and Executive Team.
- Support and monitor the performance and progress of management in meeting targets and objectives and in the overall management of strategic risks.
- Seek assurance and evidence that financial information is available and reliable, and that financial controls are robust.
- Seek assurance and evidence that there are sound and robust governance and risk management arrangements in place.

See page 30 for details of DB members.

Executive Team

The Executive Team (ET) supports the Head of Department in managing the Department and its business in line with Ministers' aims and draws on advice and challenge from the Departmental Board. The Executive Team is the Department's senior decision-making body, having a strategic, cross-cutting corporate focus in providing Departmental corporate leadership. Corporate decision-making rights are set out in the ET terms of reference. The ET also acts as the programme board in managing the delivery of the Departmental Change Programme. See page 30 for details of ET members.

The ET is supported by seven sub-committees, each chaired by an ET member. The sub-committees take defined delegated decisions and provide scrutiny and direction to recommendations and initiatives prior to submission for ET decision.

The ET Sub-Committees are:

Planning Performance and Risk Sub-Committee

The purpose of the committee is to take decisions, and make recommendations to ET, on:

- Formulation of corporate level plans;
- Securing resources under the Spending Review process;
- Management of the Department's short, medium and long-term resources;
- Monitoring and steering of performance against agreed corporate objectives; and
- Managing strategic risks.

Investment Sub-Committee

The purpose of the committee is to:

- Provide senior management challenge to proposed investments by reviewing value for money and business cases at the outset and where tolerances are breached, and as appropriate at further stages; and
- Confirm or otherwise the continued existence of projects and make recommendations.

Change Delivery Sub-Committee

The purpose of the committee is to support successful delivery of the portfolio of mission critical projects and programmes by:

- Approving progression of projects at the Critical Design Review stage and referring to Investment Committee for business case approval;
- Agreeing significant changes to plans and scope;
- Resolving cross-cutting issues and conflicting dependencies; and
- Reviewing programmes on a 6 – 12 month basis.

People Strategy Sub-Committee

The purpose of the committee is to:

- Develop a DWP People Strategy to support and enable the delivery of strategic business goals;
- Prioritise key areas for business and Human Resources (HR) going forward; and

- Ensure compliance with People strategy across DWP.

Information Security Sub-Committee

The purpose of the committee is to provide leadership on all aspects of information security strategy and policy including:

- IT, Physical, Document and Personnel Security where they impact on Information Security; and
- Be the focal point within the Department for information security issues, including supplier security performance.

IS/IT Strategy Sub-Committee

The purpose of the committee is to:

- Own, develop and update the Department's IS/IT Strategy framework; maintaining alignment with the Department's Change Programme;
- Facilitate and monitor the IS/IT Strategy;
- Monitor its effectiveness and ensure that risks to delivery are effectively managed;
- Set the priorities for IT investment within the context of the Department's overall investment plan; and
- Provide technology through leadership and excellence in IT management both within the Department and cross government.

Communications Strategy and Corporate Reputation Sub-Committee

The purpose of the committee is to ensure that the Department develops and maintains an effective communications strategy that:

- Is built around the needs of the customer;
- Is aligned to the Departmental business objectives with resources, risks and key outcomes regularly monitored and reviewed; and
- Regularly monitors and reviews the Department's corporate reputation.

Non-Departmental Public Bodies

The Department sponsors a wide range of Non-Departmental Public Bodies (NDPBs) to help it achieve its objectives. A list of these bodies can be found on the Department's Internet site: http://www.dwp.gov.uk/ndpb/public_bodies.asp

The Secretary of State appoints the chair and members, commissioners or trustees to the Board of each body. These appointments are made in line with the Commissioner for Public Appointments Code of Practice.

For each of the NDPBs the Secretary of State designates a lead official within the Department who has responsibility for the stewardship of that body. 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.

Each Executive NDPB has a management statement and financial memorandum drafted by the sponsor team in close consultation with the NDPB. The management statement sets out the framework within which the NDPB operates, including aims, objectives and targets; the respective roles and responsibilities of the Department and the NDPB; the planning, budgeting and control arrangements; and how the NDPB will be accountable for its performance.

The remit of each of the Department's NDPBs and membership information can be found at or accessed via links from Annex A of the Department's Annual Appointments Plan, which can be found at the following internet address: http://www.dwp.gov.uk/ndpb/AAP.pdf

Management Commentary

Departmental aim and objectives

The Department for Work and Pensions exists to **promote opportunity and independence for all.** It provides help to individuals and supports the country's economic growth and social cohesion.

The Department:

- helps individuals to achieve their potential through employment, to provide for themselves, their children and their future retirement; and
- works with others to combat poverty, both of aspiration and outcome.

Over the 2004 Spending Review period, the Department had five strategic objectives, as set out in its Five Year Strategy *Opportunity and security throughout life* (Cm 6447) which was published in February 2005. www.dwp.gov.uk/publications/dwp/2005/5_yr_strat/

These were to:

- 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, while 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
- ensure customers receive a high quality service, including high levels of accuracy.

The Department's Public Service Agreement (PSA) sets out the specific targets that must be met, in return for the resources provided through the Government's Spending Review.

To achieve the Government's aim of a fairer and more inclusive society, the welfare system must encourage and support the development of potential and its realisation across people's lives. The Department is working to support people to achieve the best possible outcomes for themselves over the course of longer, active lives.

Tackling the medium-term and longer-term challenges facing society requires close working with other government departments, employers, healthcare providers, those providing opportunity through education and skills, and other stakeholders across the economic and social sectors.

Organisation

The Department is structured to discharge three key roles:

- **Client Directorates:** identify effective strategies, policies, resource allocation and approaches to service delivery that best meet the needs of particular client or customer groups which the Department serves.
- **Delivery Businesses**: deliver services to meet specified customer outcomes for particular clients/ customers.
- **Corporate functions:** provide overall corporate direction, planning and performance management, strategic and specialist advice, and integrated services in relation to finance, HR, IT, legal and communications.

The Departmental Board has advisory and challenge functions. It is responsible for scrutinising, challenging and providing advice on delivery strategies, plans and programmes, performance and governance arrangements.

The Department's Executive Team supports the Head of Department providing corporate leadership and working collaboratively to manage the Department in delivering its key objectives, ensuring that risks and opportunities are identified and well managed.

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

Services to customers are mainly provided by or through the Department's executive agencies. In 2007-08 these were:

1. **Jobcentre Plus** – helps people to find work and receive the benefits they are entitled to, and offers a service to employers to fill their vacancies quickly and successfully in Great Britain.

2. **The Pension Service** – delivers frontline services to today's and future pensioners in Great Britain.

3. **Child Support Agency** – administers the Child Support Scheme in Great Britain.

4. **Disability and Carers Service** – delivers a range of benefits to disabled people and carers in Great Britain.

5. **The Rent Service** – provides a range of advice in connection with the private rented housing sector in England.

In 2008-09 The Pension Service and Disability and Carers Service have been combined, and the Child Maintenance and Enforcement Commission, a new Non-Departmental Public Body, will replace the Child Support Agency during 2008-09.

The Department has ministerial responsibility for the Health and Safety Commission/Executive which works with local authorities to protect people's health and safety by ensuring that risks in the changing workplace are properly controlled. From 1 April 2008 the Commission and Executive were merged to form a single body called the Health and Safety Executive.

Additionally, the Department is jointly responsible with the Department for Children, Schools and Families (DCSF) for the Sure Start Unit, which develops policies and services to expand childcare and help parents into work in England, and with the DCSF and other organisations for the Child Support Unit, which was set up in November 2007 to provide an integrated approach across government to tackling child poverty.

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 efficiency challenge

As part of the Spending Review 2004 settlement, by 2007–08 the Department was required to achieve a gross reduction in the size of its workforce of 40,000 posts, resulting in a net reduction of 30,000 after redeploying posts to frontline roles, and deliver annual efficiencies of at least £960 million while at the same time maintaining and improving customer services.

The Department was also set a target by the Lyons review to relocate 4,000 posts away from London and the South East to other regions by March 2010.

The Department has achieved a gross headcount reduction of 40,153 posts, a net headcount reduction of 31,101, and relocated 4,045 posts away from London and the South East since April 2005.

Principal activities for achieving the Department's objectives in 2007-08

During 2007-08 the Department:

- took forward policies, strategies and plans to meet the Government's agenda through the Welfare Reform Act 2007, the Pensions Act 2007, the Child Maintenance and Other Payments Act and the current Pensions Bill;
- provided a range of services to jobseekers and employers through over 800 Jobcentre Plus offices and in partnership with other organisations, contributing to record levels of employment and low unemployment rates;
- assessed and delivered social security benefits and supported local authorities as they delivered housing and council tax benefits;
- assessed, collected and arranged child support maintenance while working to introduce fundamental reform of the child maintenance system, ensuring parents maintain their children wherever they can afford to do so;
- continued to improve and modernise services for today's and future pensioners, tailoring services to meet customers' needs and improving efficiency;
- promoted the opportunities and rights of disabled people through the Office for Disability Issues; including the Disability Equality Duty introduced in December 2006, and a range of cross-government initiatives such as the Independent Living Strategy and Individual Budgets;
- built on investment in the modernisation of the Department's office network and IT systems to become a more efficient, customer-focused organisation; and
- continued to demonstrate the Department's active support of the objectives of the *UK Strategy for Sustainable Development – Securing the Future*.

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 Spring Departmental Report, the Autumn Performance Report and in agency reports and accounts.

Overall performance in 2007-08

Around half the Department's SR2004 targets were met, ahead or on course.

Significant aspects of performance were:

- The Welfare Reform Act 2007 was passed, enabling the replacement of incapacity benefits with the Employment and Support Allowance from Autumn 2008 and the national rollout of local housing allowance in April 2008.
- Modernisation of the Jobcentre Plus office network was completed within budget, offering customers a more professional and welcoming environment.

- The national rollout of the Pathways to Work programme was completed, helping everyone on incapacity benefits in Great Britain to overcome barriers to work.
- The Child Support Agency collected or arranged a record £1 billion in child maintenance payments, benefiting almost 750,000 children.
- The Chair and Commissioner Designate of the Child Maintenance and Enforcement Commission were appointed.
- The Pensions Act 2007 was passed, setting out long-term reforms to make the State Pension fairer, simpler, more generous and more widely available.
- The current Pensions Bill was introduced to Parliament, to encourage more people to build up a private pension scheme, and the Personal Accounts Delivery Authority was established.
- Equality 2025, the UK Advisory Network on Disability Equality, held its first public meeting in November 2007.
- The Independent Living Strategy was published in February 2008; it brings together recent initiatives on employment, housing and social care to remove barriers and to improve access to services.
- Benefit simplification work resulted in: improvements to assessing new claims to working age benefits; updated medical guidance for Disability Living Allowance and Attendance Allowance decision makers, and a reduction in Jobseekers Allowance and Income Support from three benefit rates to two.
- Investment in Information Technology has delivered new Voice over Internet Protocol (VoIP) telephony and increased network capacity, supporting more than 40 networked contact centres, enabling the Department to respond to the increasing demands of its huge customer base.
- The Department piloted improved services for customers who move in and out of work in collaboration with Her Majesty's Revenue and Customs and local authorities, and also led the Tell us Once project which is exploring a one stop service for customers who report changes of circumstances.
- For the sixth year running, the Department made the biggest contribution to the Office for Government Commerce targets to deliver value-for-money savings. As a result of improving procurement capability and managing demand, the annual expenditure with external suppliers reduced from £4.27 billion to under £4 billion.
- The Department is already exceeding its total waste targets for 2010-11 and plans to increase the range of materials being recycled.
- In the second 'Whitehall and Westminster World' Civil Service Awards – designed to celebrate excellence in the Civil Service – the Department had nine finalists in the 13 categories and won the Diversity Award and the Joined Up Government Award.

Responsibilities for Contracted Employment Provision

In 2007-08 there was a change of accountability for Contracted Employment Provision (CEP) with responsibility transferring from Jobcentre Plus to the Work, Welfare and Equality Group (WWEG), part of the DWP Corporate Centre. The purpose of the transfer is to consolidate strategy, finance, procurement and provision planning and drive up the overall effectiveness of key service areas.

New organisational and governance arrangements have been introduced in WWEG to underpin these new accountabilities and manage the delivery of the CEP budget. Jobcentre Plus (JCP) will retain responsibility managing the customer experience via advisers. To support the local nature of financial management work at a regional and district level some finance staff will be retained within JCP with services provided through a Service Level Agreement to WWEG.

Within WWEG the Contracted Employment Provision Delivery Board (CEPDB) has been established to oversee the management of CEP, ensuring that contracted provision is designed to deliver ministerial objectives to the right quality within agreed expenditure limits. The Board, chaired by the Delivery Director, is comprised of senior managers from WWEG, Jobcentre Plus and Commercial Employment Provision ensuring senior input from everyone with responsibility for the delivery of employment programmes.

Details of the Net Employment Programme Costs can be found at:
www.dwp.gov.uk/publications/dwp/2008/res-acc/contracted-employment.pdf

Personal data related incidents

Departments are required this year, for the first time, to report on personal data related incidents. The tables below cover the entire DWP family including executive agencies and Non Departmental Public Bodies. Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

TABLE 1: SUMMARY OF PROTECTED PERSONAL DATA RELATED INCIDENTS FORMALLY REPORTED TO THE INFORMATION COMMISSIONER'S OFFICE IN 2007-08

Date of incident (month)	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
July	Other	Name; address; NI number	7,800	Individuals notified by post.
December	Unauthorised disclosure	Name; address; NI number	9,000	Law enforcement agencies notified.
January	Loss of paper documents from outside secured Government premises	Name; address; NI number	45	Law enforcement agencies notified.
Further action on information risk	The Department will continue to monitor and assess its information risks, in light of the events noted above, in order to identify and address any weaknesses and ensure continuous improvement of its systems.			

TABLE 2: SUMMARY OF OTHER PROTECTED PERSONAL DATA RELATED INCIDENTS IN 2007-08

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures.

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	None
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	None
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	None
IV	Unauthorised disclosure	None
V	Other	None

TABLE 3: YEAR-ON-YEAR TOTAL NUMBERS OF PROTECTED PERSONAL DATA RELATED INCIDENTS PRIOR TO 2007-08

Total number of protected personal data related incidents formally reported to the Information Commissioner's Office, by category number

	I	II	III	IV	V	Total
2006-07	–	–	–	–	–	None
2005-06	–	–	–	–	–	None
2004-05	–	–	–	–	–	None

Total number of other protected personal data related incidents, by category number

	I	II	III	IV	V	Total
2006-07	–	–	–	–	–	None
2005-06	–	–	–	–	–	None
2004-05	–	–	–	–	–	None

Financial Position and Results for the Year

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.

As a Government Department, the DWP is accountable to Parliament for its expenditure. Parliamentary approval for its spending plans is sought through Supply Estimates presented to the House of Commons.

The Department is subject to gross expenditure control under the Parliamentary Vote system and has one Vote which is constructed on a resource account basis and is analysed by Request for Resources (RfR). Each RfR includes a formal description (ambit) of the services to be financed by each RfR and Voted money cannot be used to finance services not covered by the ambit.

Results for the year (Operating Cost Statement)

The Operating Cost Statement reports the net total administration and programme resources consumed during the year by Request for Resource.

The results for the year included in the Operating Cost Statement are as follows:

- Net Operating Cost amounting to £135.2 billion (2006-07 £126.9 billion).
- Gross payments of social security benefits administered by the Department amounting to £130.2 billion (2006-07 £121.8 billion) (see note 13).
- Included within Gross payments are payments made by the Department of £0.6 billion (2006-07 £0.7 billion) on behalf of the European Social Fund.

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

	Estimate	Outturn	Variance
	£000	£000	£000
Net Resource Outturn (Estimates)	**72,388,636**	**68,723,160**	**3,665,476**
Adjustments to remove:			
Provision voted for earlier years	–	–	–
Adjustments to additionally include:			
Non-voted expenditure in the OCS	71,519,025	70,607,977	911,048
Consolidated Fund Extra Receipts in the OCS	-	(16,257)	16,257
Other adjustments	(4,208,348)	(4,067,654)	(140,694)
Net Operating Cost (Accounts)	**139,699,313**	**135,247,226**	**4,452,087**
Adjustments to remove:			
Capital grants	(9,388)	(27,609)	18,221
Gains/Losses from sale of capital assets	–	(17,033)	17,033
European Union income and related adjustments	–	–	–
Voted expenditure outside the budget	–	–	–
Adjustments to additionally include:			
Other Consolidated Fund Extra Receipts	–	12,552	(12,552)
Resource consumption of non-departmental public bodies	1,676	9,693	(8,017)
Unallocated resource provision	–	–	–
Other adjustments	910	–	910
Resource Budget Outturn (Budget)	**139,692,511**	**135,224,829**	**4,467,682**
Of which			
Departmental Expenditure Limits (DEL)	7,758,149	7,705,256	52,893
Annually Managed Expenditure (AME)	131,934,362	127,519,573	4,414,789

Financial Position (Balance Sheet)

The Balance Sheet is dominated by debtors of £4.4 billion and creditors of £4.3 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 £826.9 million which are comprised mainly of leasehold improvements of £512.4 million and IT related assets of £231.2 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 £28.9 million and software both under development and in use amounting to £202.4 million (see note 21).

In addition, the Department has an on-balance sheet PFI contract in respect of accommodation for laboratory and support functions within HSE. The purchase of the building is represented on the balance sheet by a long-term liability to the value of £60.9 million (see note 27).

Comparison of Outturn against Estimate (Statement of Parliamentary Supply)

The Statement of Parliamentary Supply provides information on how the Department has performed against the Parliamentary and Treasury control totals against which it is monitored. This information is supplemented by Note 2 which reports Outturn in the same format as the Supply Estimate.

In 2007-08 the Department met all of its control totals:

- Resource Departmental Expenditure Limit (DEL) – Outturn was £7.7 billion, within 0.7% of the Estimate.
- Capital DEL – Outturn was £0.1 billion which was 8.6% below the Estimate.
- Near Cash in Resource DEL – Outturn was £7.5 billion, within 1% of the Estimate.
- Administration Cost Limit – Outturn was £5.7 billion, within 2% of the Estimate.

- Net Cash Requirement – Outturn was £66.3 billion, within 3.1% of the Estimate.
- In addition the outturn on each Request for Resources (RfR) was within its control total as follows:

  RfR1 (Children) – Outturn within 0.3% of Estimate;

  RfR2 (Working Age) – Outturn within 1.8% of Estimate;

  RfR3 (Pensions) – Outturn within 16.1% of Estimate;

  RfR4 (Disability) – Outturn within 1.9% of Estimate;

  RfR5 (Corporate) – Outturn within 10.7% of Estimate.
- The total voted net resource outturn was £68.7 billion, within 5.1% of the Estimate (£3.7 billion underspend). The under spend of £3.7 billion is made up of £0.05 billion DEL and £3.695 billion AME. The full analysis of expenditure by Estimate line is provided in Note 2. Explanations of some of the more notable variances are as follows:

Estimate Line	Limit £000	Outturn £000	Variance (Over)/ Under £000	Explanation of variance
2B – Employment Programmes	776,383	971,844	(195,461)	The variance is primarily due to increased expenditure on New Deal programmes, additional funding for the Remploy Ltd Modernisation Plan and further rollout of Pathways.
2C – Health and Safety Executive	228,692	214,733	13,959	The under spend relates to efficiencies delivered as part of the HSE's Economy, Efficiency and Productivity Programme.
2E – Capital Grants	5,927	4,210	1,717	This primarily relates to a lower than planned capital grant to Remploy Ltd (offset by increased resource grants described above in 2B).
2H – European Social Fund Payments in advance of receipts	35,249	18,922	16,327	The variance is due to reduced losses on ESF programmes and an unplanned exchange rate gain (as opposed to exchange rate losses in previous years).
2I – Employment Programmes	37,047	66,204	(29,157)	The variances offset each other and were caused by an incorrect split of provision in the Supply Estimate.
2J – Housing Benefit and Council Tax Benefit administration grants	680,200	648,269	31,931	
2Q – Jobseekers Allowance (Income Based)	2,051,295	1,790,365	260,930	This under spend was due to the unemployment count which fell below the levels originally forecast in Budget 2007.

Estimate Line	Limit £000	Outturn £000	Variance (Over)/ Under £000	Explanation of variance
2U – Housing and Council Tax Benefit capital charge	3,277	(6,787)	10,064	The under spend has arisen due to the level of final Local Authority Housing Benefit / Council Tax Benefit claims being higher than anticipated resulting in a greater year-end creditor than forecast.
2Y – Statutory Benefits (SSP and SMP)	1,712,065	1,584,829	127,236	The level of payments required are based on DWP estimates which use information on past recoveries taken from systems administered by HM Revenue and Customs. Following the release of full data for the latest available outturn (2004-05) the estimate was revised down at year-end resulting in the underspend.
3A – Administration	287,717	307,723	(20,006)	The over spend is due to a late adjustment to the accounts to include a bad debt provision in respect of accrued general levy income and a greater than forecast cost of staff exits.
3B – Pension benefits	5,134,036	2,531,218	2,602,818	The variance relates to the Financial Assistance Scheme (FAS). Extensions to the scheme announced during 2007-08 will result in an increase to the FAS provision of approx. £5bn. However, the timing of subsequent enabling legislation means that some of this liability will not crystallise before the accounts are laid in Parliament and will therefore be brought to account in future years.
4F – Vaccine Damage Payments	500	200	300	The under spend has arisen due to fewer than expected Vaccine Damage Payments being awarded than in previous years.
4G – Grants to independent bodies	12,029	14,486	(2,457)	The over spend is due to a higher than anticipated year-end accrual in respect of the Motability Specialised Vehicle Fund.

Estimate Line	Limit £000	Outturn £000	Variance (Over)/ Under £000	Explanation of variance
4H – Disability (Grant in Aid)	301,039	288,078	12,961	The variance has been caused by the change in classification of the Independent Living Fund (ILF). Classification as an NDPB means ILF is now treated on a cash basis in the Estimate, removing the need for an accrual which had been included within the provision as in previous years.
5A – Administration	826,886	738,668	88,218	Under spend primarily relates to savings generated on departmental IT and Estates contracts compared with the original planning assumptions set at the beginning of the spending review period.

Cash Flow Statement

The Cash Flow Statement provides information on how the Department finances its activities. The main sources of funding are the Consolidated Fund and the National Insurance Fund.

The Cash Flow Statement shows a net cash outflow from operating activities of £133.0 billion compared to a cash outflow in 2006-07 of £125.6 billion. The change is mainly due to the increase in net operating costs of the Department from £126.9 billion to £135.2 billion.

The £98.7 million net cash outflow on investing activities consists mainly of expenditure on tangible fixed asset additions of £66.8 million, the major items being software development, classified as Assets under Construction and Leasehold Improvements.

Consolidated Statement of Operating Costs by Departmental Aim and Objectives

This statement reports expenditure by Departmental Objective. European Social Fund expenditure is excluded as this is outside of the Department's control. The basis of allocation and apportionment of administration and programme expenditure is provided in Note 33.

Prior Year Comparatives

Comparative figures within the Account have been restated to take account of the following:

- The recognition of CFER's Income through the Operating Cost Statement in accordance with the Financial Reporting Manual;
- Machinery of Government transfer of functions from Office of Civil and Nuclear Security (OCNS) and UK Safeguards Office to HSE on 1 April 2007, and the transfer of the Disability Rights Commission to the Government Equalities Office on 1 October 2007 and;
- Other restatements relate to the reclassification of costs between non staff and staff costs and the reclassification of the cost of capital charge relating to the Financial Assistance Scheme provision from Admin to Programme.

Further details can be found in Note 46 – Transfer of Functions and Restatements.

Investment

During the 2007 CSR period, DWP plans to invest in the following major programmes:

- **Welfare Reform** – the further roll-out of the Pathways to Work programme for people on incapacity benefits, modernising the New Deal and the introduction of the Employment and Support Allowance.

- **Private Pension Reform** – the new system of 'personal accounts' will be set up, based around the principle of auto-enrolment, to help people who currently do not have access to a work-based pension to make provision for their retirement.

- **Formation of the Child Maintenance and Enforcement Commission (C-MEC)** – the launch of C-MEC will help transform our system of child maintenance by enabling and encouraging parents to reach their own child-maintenance arrangements.

- **The Change Programme** – based around a vision of "Work, Welfare, Well being, Well Delivered". The strategy aims to join-up services based on customers' needs to achieve the best outcomes for them, while driving out waste and increasing efficiency.

Departmental reporting cycle

The DWP Main Estimate for 2007-08 was published in April 2007 as part of the Central Government Supply Estimates 2007-08 Main Supply Estimates (HC 438). The Department also applied for Winter and Spring Supplementary Estimates, details of which are available in the Central Government Supply Estimates 2007-08 Winter Supplementary Estimates (HC 29) and the Central Government Supply Estimates 2007-08 Spring Supplementary Estimates (HC 273).

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 Autumn Performance Report 2007 was published as an on-line document only.

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 7401), which was published in May 2008, presented the Department's expenditure plans for 2008-09, outturn expenditure for 2006-07 and estimated outturn for 2007-08. The Departmental Report can be found at: www.dwp.gov.uk/publications/dwp/2008/dr08/

All of the above reports are in the public domain and can be accessed from the DWP web site: www.dwp.gov.uk.

Benefit Overpayment Debtors

In previous years there has been a limitation of scope qualification on the Resource Account in relation to the Department's benefit overpayment debtors, which covered three aspects – existence, valuation and completeness.

The existence and valuation of debt was addressed with the introduction of the "Debt Manager" computer system, which provides a full audit trail of debts, and the disclosure of the Department's benefit debt accounting policy, which states that the Department regards debt notification letters as evidence of the existence of a debt. In 2006-07, due to the significant progress made by the Department and the available evidence, National Audit Office confirmed that these issues had been resolved and these aspects of the qualification were removed.

The completeness issue arose with the production of the first Departmental Resource Account in 1999-2000. In 2006-07, the NAO felt that there were still material amounts of debt that had not been identified and referred to Debt Centres for recovery. The accounts qualification therefore remained in respect of the completeness of debt.

Very significant progress has been made during 2007-08 to deal with this. Key initiatives within Jobcentre Plus and The Pension Service have addressed these issues and this has resulted in a significant increase in overpayment referrals to the extent that by the end of the year virtually all overpayments are being referred. The following table records the number of overpayments referred for action and the amount of debt recovered in 2007-08. For comparison purposes the figures for 2005-06 and 2006-07 are also included: –

Year	Overpayment referral volumes	Recoveries
2005-06	0.8 million	£180 million
2006-07	1.0 million	£233 million
2007-08	1.3 million	£272 million

The Department assessed the value of un-referred overpayments for 2007-08 prior to the full implementation of the process improvements outlined above. This assessment has established that the un-referred element for 2007-08 was less than 0.1% of total benefit expenditure.

During 2007-08 the Department has conducted a number of exercises to look at previously un-referred overpayments for years prior to 2007-08. These exercises have shown that it was not cost effective to continue to pursue these overpayments as it would cost more to identify them than the Department would get back in recoverable debt. The Department has reviewed these findings and are satisfied the values and volumes of previously un-referred overpayments are not proportionate in comparison to the cost associated with finding them. However, if evidence which would allow individual overpayments from previous years to be calculated comes to light then those overpayments will be actioned in the normal way. HM Treasury accept that the evidence provided to them by the Department demonstrates that the cost of identifying and pursuing un-referred cases from previous years is significantly higher than the recoverable amount and is not value for money.

As a result of the progress made during the year the NAO has removed the qualification.

Public Interest and Other

Employment of disabled people

People with disabilities, as defined in the Disability Discrimination Act 1995, are employed across all grades within the Department. The Department aims to improve the level of knowledge and understanding throughout its business in order to improve services for disabled staff and customers. The abilities of disabled people are recognised and valued throughout the Department by focusing on what people can do rather than what they cannot and by making reasonable adjustments to the workplace to allow people with disabilities to achieve their full potential.

Committed to Equality and Valuing Diversity

The Department actively promotes 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 in the workforce by trade union representatives.

In 2005-06 the Department reviewed its arrangements for consulting and keeping the trade unions up to date on developments and has consulted them extensively on a range of major issues, including its workforce planning programme and the efficiency challenge. The early part of 2008 was marked by industrial action by one of the three trade unions. The Department intends to continue actively seeking to build a better working relationship with them.

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.

Sustainable Development

The Department continues to demonstrate its active support to the objectives of the *UK Strategy for Sustainable Development – Securing the Future*, www.sustainable-development.gov.uk/publications/uk-strategy/index.htm. In September 2005, the Department produced a revised *Sustainable Development Policy Statement*, demonstrating commitment to the key priorities and principles of the new strategy. The Department's 23-point plan to deliver on its commitments, entitled *Delivering Sustainable Development – DWP Action Plan*, was produced in December 2005.

Communication with other government departments is maintained by active involvement in cross-government bodies such as the Sustainable Operations Board and the Sustainable Development Forum, to enable the development of government-wide targets and sharing of best practice.

Staff engagement is also key to delivering the objectives and to embedding sustainable development in to all Departmental functions. A variety of methods have been employed to capture staff interest on a broad basis.

The Department has introduced several initiatives in support of its policy for sustainable development:

- Gradually moving away from paper-based communications;
- Making efforts to reduce carbon emissions from travel through improvements in fleet cars, with an increasing number of alternatively fuelled cars and a reduction in mileage;
- Securing 60 percent of electricity supplies from renewable sources. The electricity has been generated from various sources, including wind, landfill gas and combined heat and power;
- Working towards a reduction in water consumption; and
- Continuing to increase the percentage of waste being recycled, which currently stands at 52 percent.

The Department's achievements were recognised externally by Building Magazine's *Sustainable Client of the Year* award and the award of a Green Apple (Gold) for Environmental Best Practice. Further achievements and progress are reported annually in the *DWP Sustainable Development Annual Report,* www.dwp.gov.uk/sus-dev/#reports.

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% (2006-07 86%) of bills were paid within this standard. This is an improvement of 10% on last year's performance and reflects the effectiveness of the robust processes that were established and put into practice in the latter part of the last Financial Year.

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 £20,232 arising and payable by the Department during the year (2006-07 £23,271). These costs are included within Interest Charges within other administration costs, which are reported at Note 9.

Introduction of the Euro

The Department continues with some limited changeover planning and preparation activities such that, in the event of a positive decision to join the Single European Currency, the main changes required to the computer systems, business systems and products will have been identified and quantified to enable the Department to meet the timescales set out in HM Treasury's Third Outline National Changeover Plan.

Implementation of International Financial Reporting Standards (IFRS's)

International Financial Reporting Standards (IFRS's) will be introduced across Central Government in the 2009-10 financial year.

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 45 to 58.

The cost of audit work was £2,495,000 (2006-07 £2,407,000), which solely related to statutory audit services. This included actual costs of £98,000 (2006-07 £94,000) (see Note 9) and notional costs of £2,397,000 (2006-07 £2,313,000) (see Note 11).

Value for Money studies are ongoing in the following areas:

- Complaints handling within the Department for Work and Pensions
- The Department for Work and Pensions' support for carers
- Debt Management

In addition, the following value for money studies have been published during the 2007-08 financial year:

- Progress in tackling benefit fraud
- Helping people from workless households into work
- Sustainable employment: supporting people to stay in work and advance

- Increasing employment rates for ethnic minorities
- The rollout of the Jobcentre Plus office network

So far as the Accounting Officer is aware, there is no relevant audit information of which the Department's auditors are unaware. The Accounting Officer confirms that he has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Department's auditors are aware of that information.

Remuneration Report

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances, on Peers' allowances, and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

In reaching its recommendations, the Review Body is to have regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's Departmental Expenditure Limits; and
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Details of the service contract for each member of the Department's Executive Team are shown on page 29.

Methods used to assess performance

There are four stages involved in the assessment of performance:

i) Self assessment.

ii) Performance Review Discussion with Line Manager.

iii) Relative Assessment Peer Group.

iv) Pay Committee.

How these operate in practise is explained below.

i) Although there is no requirement to formally record a self assessment, Senior Civil Service (SCS) members are encouraged to consider their own assessment in preparation for their performance review discussion. They would reflect on and collect a reasonable amount of examples or evidence that would be helpful in assessing their contribution in relation to the measures and required outcomes they signed up to either at the beginning of the year or as their role developed during the year.

ii) The performance review discussion is an opportunity for the SCS member and their line manager to address performance in relation to:

- the achievement of objectives;
- contribution to organisational objectives;
- growth in competences; and
- the application of skills and knowledge.

They will also discuss issues for the forthcoming year, which would include:

- the objectives for the forthcoming year;
- the range of sources to be used in assessing their performance in the forthcoming year; and
- the potential and development needs of the SCS member.

This discussion, once documented, is reviewed by a countersigning officer and returned to the SCS member before referral to a relative assessment peer group. Countersigning Officers have an important role in performance review in helping to ensure consistency in relative assessment.

To ensure consistency within each business area of the Department, Countersigning Officers or Business Heads will hold discussions with their reporting teams at the outset to ensure consistent interpretation of relative assessment and bonus criteria for SCS staff within their command.

In order to maximise consistency in standards across Businesses, and to better inform the Pay Committee, Business Heads or senior Directors may confer with other similar Businesses to provide a wider benchmark for staff.

iii) The performance of individual staff will be relatively assessed against peers within the same pay band within the following performance profile:

Performance Group	**Percentage of Staff**	**Award**
Group 1	25	receive the highest awards
Group 2	40	typically receive awards
Group 3	25-30	may only exceptionally receive an award
Group 4	5-10	do not receive an award

iv) The role of Departmental moderation, especially in the form of senior pay committees (see below) is to:

- determine and publish the Department’s SCS pay strategy;
- assess the relative contribution of its SCS members;

- authorise decisions on individual base pay awards and bonuses made on the criteria outlined in this guidance and the HR Practitioners Guide;
- ensure the average increase to the SCS paybill is within the centrally determined budget;
- monitor pay outcomes to ensure that any differences are justifiable;
- monitor the identification of those SCS members needing extra help and support to improve their performance;
- ensuring that line managers receive feedback on final pay decisions so that they can explain to individuals how these have been reached;
- comment on the quality of managers' evidence and recommendations so that improvements are made for the next year, if necessary; and
- report to Management Boards and the Cabinet Office on the operation of the pay round and any lessons for the future.

The Pay Committees are comprised of:

Pay Strategy Committee
Leigh Lewis (Chair)
Chris Last
Lesley Strathie
Mike Sommers (Non-Executive Director)

Pay Band 1 and 2 Pay Committees
Leigh Lewis (Chair)
Lesley Strathie
Phil Wynn Owen
Adam Sharples
Richard Heaton
Stephen Geraghty
Joe Harley
Chris Last
John Codling
Terry Moran
Mike Sommers (Non-Executive Director)
John Cross (Non-Executive Director)

Pay Band 3 Pay Committee
Leigh Lewis (Chair)
Mike Sommers (Non-Executive Director)
John Cross (Non-Executive Director)

After the end of year performance review, the Pay Committees will consider line managers' pay recommendations, assess the relative contribution of those in the pay band and make final base pay and non-consolidated performance award decisions. When their final pay decisions have been made the Pay Committee's decision will be communicated in writing. Pay recommendations are not communicated to individuals before they are considered by the Pay Committee. However, where the Pay Committee change a recommendation, the individual will be informed of the original and final markings following the Pay Committee meeting.

Relative importance of relevant proportions of remuneration which are subject to performance conditions

There are two financial elements to the remuneration paid to SCS members:

i) Base Pay; and

ii) Non-consolidated performance awards.

Both elements are linked to performance but are considered and awarded separately.

The following criteria must be used in the round to recommend individual performance groups and non-consolidated performance awards: –

- whether objectives in the corporate, business and capacity parts of the common framework have been met or not, and to what degree;
- judgements about how the objectives were achieved and in particular whether the leadership behaviours and professional skills part of the common framework have been demonstrated or not, and to what degree; and
- the degree of difficulty or ease of meeting the objectives in the light of actual events.

i) Consolidated base pay rewards value or contribution which is determined using three criteria:

  - individual's overall growth in competence; Professional Skills for Government (PSG) provides the framework for assessing competence;
  - challenge associated with their job; informed by job weight and departmental priorities; and
  - confidence in the individual's future performance; based on sustained past performance or rigorous assessment of potential.

  All awards must fall within the range recommended by the Senior Salaries Review Body (SSRB) and within an overall cost envelope.

ii) Non-consolidated performance awards are intended to reward and provide incentives for in-year delivery of key results. The size of the available pot is set by the SSRB as a percentage of the Department's SCS pay bill. To encourage greater differentiation of bonus payments the minimum non-consolidated performance award for 2008 will be £3,000. Non-consolidated performance awards will be awarded to 65% of SCS staff.

  People not in high profile posts should be given equal opportunity in relative assessment and non-consolidated performance award recommendations even though their work may not be explicitly linked to a PSA objective or be in an area which is high on the political agenda.

Policy on notice periods and termination payments

Standard SCS Notice Period

Notice

a. Because of the power of the Crown to dismiss at will, an SCS member is not entitled to a period of notice terminating their employment. However, unless employment is terminated by agreement, in practice they will normally be given the following periods of notice in writing terminating employment:

(i) if retired on age grounds, if dismissed on grounds of inefficiency, or if dismissal is the result of disciplinary proceedings in circumstances where summary dismissal is not justified:

- Continuous service up to 4 years, a notice period of 5 weeks
- Continuous service of 4 years and over, a notice period of 1 week plus 1 week for every year of continuous service up to a maximum of 13 weeks.

(ii) if retired on medical grounds, a period of notice as above or, if longer, 9 weeks, unless a shorter period is agreed.

(iii) if employment is terminated compulsorily on any other grounds, unless such grounds justify summary dismissal at common law or summary dismissal is the result of disciplinary proceedings, a notice period of 6 months applies.

On the expiration of such notice, employment will terminate.

There will be no notice if an individual agrees to flexible or approved early retirement or voluntary redundancy.

b. If employment is terminated without the notice which it is stated in (a) which would in practice normally be given, having regard to the reason for such termination, compensation will be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

c. Unless otherwise agreed, an individual is required to give 3 months' written notice to the Group HR Director, if they wish to terminate their employment.

Compensation for early termination is based upon the standard SCS terms and conditions as set out in the SCS Contracts.

Other Compensation for Compulsory Early Termination of Contract

(a) If employment is terminated prior to the end of the fixed period without the notice which it is stated above would in practice normally be given, having regard to the reason for such termination, compensation will be paid in accordance with the relevant provision of the Civil Service Compensation Scheme.

(b) The provisions of the Civil Service Compensation Scheme relating to fixed term appointments apply if the contract is terminated for reasons of redundancy or for reasons of structure or limited efficiency:

Structure: Structure denotes severe management problems e.g. serious promotion blockage or other situations creating managerial or organisational difficulties which impair the efficient working of the Department.

Limited Efficiency: if performance falls below the required standard an individual may be retired on grounds of limited efficiency.

(c) If performance is so unsatisfactory as to warrant the use of inefficiency procedures and an individual is dismissed for inefficiency, the Department has discretion, in certain circumstances, to award compensation under the Civil Service Compensation Scheme.

(d) **Medical Retirement**: If an individual is a member of the Principal Civil Service Pension Scheme (PCSPS) or the partnership pension account, they may be retired on medical grounds and eligible for payment of ill health retirement benefits. The Civil Service Pensions Division of the Cabinet Office sets the criteria for medical retirement. The present criteria for medical retirement are that the breakdown in someone's health is such that it prevents them from carrying out their duties and that the ill-health is likely to be permanent.

Details of the service contract for each Executive Team member who has served during the year *

The main details of service contracts are included in the table shown below.

Officials	Date of appointment	End date of term	Unexpired Term
			Years
Leigh Lewis Permanent Secretary	14/11/2005	N/A	N/A
Lesley Strathie	13/10/2005	N/A	N/A
Phil Wynn Owen	15/11/2004	N/A	N/A
Alexis Cleveland	01/04/2002	22/07/2007	N/A
Stephen Geraghty	01/04/2005	31/12/2007	See below
Terry Moran	14/06/2004	N/A	N/A
Adam Sharples	06/09/2004	N/A	N/A
John Codling	01/12/2001	N/A	N/A
Kevin White	29/11/2001	20/06/2007	N/A
Jane Saint	11/06/2007	01/01/2008	N/A
Chris Last	02/01/2008	N/A	N/A
Vivien Hopkins	23/07/2007	N/A	N/A
Joe Harley	28/07/2004	N/A	N/A
Richard Heaton	02/01/2007	N/A	N/A
Sue Garrard	05/02/2007	N/A	N/A

Note:

- Jane Saint took over from Kevin White on a temporary basis until Chris Last's appointment
- Stephen Geraghty became C-MEC Commissioner Designate 01/01/2008 on a 3 year fixed term until 31/12/2010 (unexpired term 3). He is also Chief Executive of CSA.
- Joe Harley became permanent from 11/02/2008

Where the end date of term is shown as N/A, this denotes that their appointment is on a permanent basis.

Details of any element of the remuneration package which is not cash *

Two members of the Executive Team received benefits in kind entitlements in respect of a chauffeur-driven car and a Private User Scheme car. The amounts involved are disclosed in the salary, allowances and taxable benefits table.

* The asterisk against the heading denotes that this information is subject to audit.

Ministers and Executive Team *

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

Rt Hon John Hutton MP	Secretary of State for Work and Pensions to 28 June 2007
Rt Hon Peter Hain MP	Secretary of State for Work and Pensions from 29 June 2007 to 23 January 2008
Rt Hon James Purnell MP	Secretary of State for Work and Pensions from 24 January 2008
	Minister of State (Minister for Pensions Reform) to 28 June 2007
Mr Mike O'Brien MP	Minister of State (Minister for Pensions Reform) from 30 June 2007
Rt Hon Stephen Timms MP	Minister of State (Minister for Employment and Welfare Reform) from 24 January 2008
Mr Jim Murphy MP	Minister of State (Minister for Employment and Welfare Reform) to 29 June 2007
Rt Hon Caroline Flint MP	Minister of State (Minister for Employment and Welfare Reform) from 30 June 2007 to 23 January 2008
Lord McKenzie of Luton MP	Parliamentary Under-Secretary (Lords)
Mr James Plaskitt MP	Parliamentary Under-Secretary (Commons)
Mrs Anne McGuire MP	Parliamentary Under-Secretary (Minister for Disabled People)
Mrs Barbara Follett MP	Parliamentary Under-Secretary from 30 June 2007 to 11 October 2007

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

Leigh Lewis[1]	Permanent Secretary and Head of Department
Phil Wynn Owen	Director General, Strategy and Pensions
Lesley Strathie[1]	Jobcentre Plus Chief Executive
Alexis Cleveland[1]	The Pension Service Chief Executive to 22 July 2007
Stephen Geraghty	Child Support Agency Chief Executive
Terry Moran	Disability and Carers Service Chief Executive to 22 July 2007,
	The Pension Service Chief Executive from 23 July 2007
Vivien Hopkins	Disability and Carers Service Chief Executive from 23 July 2007
Adam Sharples	Director General for Work, Welfare and Equality
John Codling[1]	Finance Director General
Kevin White	Human Resources Director General to 20 June 2007
Jane Saint	Human Resources Director General from 11 June 2007 to 1 January 2008
Chris Last	Human Resources Director General from 2 January 2008
Joe Harley[1]	DWP IT Director General and Chief Information Officer
Sue Garrard	Communications Director
Richard Heaton	Solicitor and Director-General of the Law, Governance and Special Policy Group.

On 1 April 2008 The Pension, Disability and Carers Service was created from The Pension Service and Disability and Carers Service under a single Chief Executive, Terry Moran.

Vivien Hopkins' role as acting Chief Executive of the Disability and Carers Service ended on 31 March 2008 (when the Agency ceased to exist).

[1] The above members of the Executive Team are or were also members of the Departmental Board.

* The asterisk against the heading denotes that this information is subject to audit.

Departmental Board

In addition to the Executive Team members noted on the previous page, there are four Non-Executive Directors of the Departmental Board as follows:

Michael Sommers	Non-Executive Director
John Cross	Non-Executive Director
Helen Stevenson	Non-Executive Director
Adrian Fawcett	Non-Executive Director

Company Directorships

Terry Moran is National Board Trustee for Victim Support.

Adrian Fawcett is the Chief Executive Officer and a company director of General Healthcare Group Limited.

Helen Stevenson is the Chief Marketing Officer at Yell Group.

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

Christopher Last is a board member of CRAC: The Career Development Organisation.

John Cross was a Non-Executive Director of ServiceTec Inc. until 1 June 2007.

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

* The asterisk against the heading denotes that this information is subject to audit.

Remuneration *

Ministers	2007-08 Salary £	2007-08 Full Year Equivalent £	2006-07 Salary £
Rt Hon John Hutton MP *Secretary of State* (to 28 June 2007)	18,585	76,904	75,963
Rt Hon Peter Hain MP *Secretary of State* (from 29 June to 23 January 2008)	44,054	76,904	–
Rt Hon James Purnell MP *Secretary of State* (from 24 January 2008)	12,817	76,904	–
Minister of State (Pensions Reform) (to 28 June 2007)	9,641	39,893	33,486 (FYE 39,307)
Mr Mike O'Brien MP *Minister of State* (from 30 June 2007)	29,813	39,893	–
Rt Hon Stephen Timms MP *Minister of State* (from 24 January 2008)	7,507	39,893	6,476 (FYE 39,307)
Mr Jim Murphy MP *Minister of State (Work)* (to 29 June 2007)	9,641	39,893	33,486 (FYE 39,307)
Rt Hon Caroline Flint MP *Minister of State* (from 30 June 2007 to 23 January 2008)	22,524	39,893	–
Lord McKenzie of Luton MP[1] *Parliamentary Under-Secretary (Lords)*	53,717	53,717	25,267 (FYE 105,035)
Mr James Plaskitt MP *Parliamentary Under-Secretary of State (Commons)*	30,280	30,280	29,909
Mrs Anne McGuire MP *Parliamentary Under-Secretary of State* (Minister for Disabled People)	30,280	30,280	29,909
Mrs Barbara Follett MP[2] *Parliamentary Under-Secretary of State* (from 30 June 2007 to 11 October 2007)	–	–	–

[1]Lord McKenzie elected not to receive a salary from 29 June 2007. The figure disclosed in salaries includes the sum of £35,873 he received as night subsistence allowances for Lord Ministers.

[2]Barbara Follett's salary was met solely by the Government Equalities Office.

This report 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 (£61,820 from 1 November 2007, £61,181 from 1 April 2007, £60,277 from 1 November 2006, £59,686 from 1 April 2006) 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.

* The asterisk against the heading denotes that this information is subject to audit.

Officials *	2007-08 Salary Including Bonus	Allowances and Taxable Expenses	Benefits in Kind*	Total	Full Year Equivalent (FYE)	2006-07 Total
	£000	£000	(to nearest £100)	£000	£000	£000
Leigh Lewis Permanent Secretary	194	–	8,000	202	202	173
Phil Wynn Owen	140	–	–	140	140	130
Lesley Strathie	155	–	–	155	155	145
Alexis Cleveland (to 22 July 2007)	47	7	–	54	169	168
Stephen Geraghty	216	6	–	222	222	200
Terry Moran	118	38	–	156	156	109
Vivien Hopkins (from 23 July 2007)	69	6	1,800	77	105	–
Adam Sharples	150	–	–	150	150	132
John Codling	165	46	–	211	211	202
Kevin White (to 20 June 2007)	28	6	–	34	154	172
Jane Saint (from 11 June 2007 to 1 January 2008)	78	6	–	84	139	–
Chris Last (from 2 January 2008)	45	–	–	45	180	–
Joe Harley	237	27	–	264	264	254
Sue Garrard	125	–	–	125	125	19 (FYE: 125)
Richard Heaton	125	–	–	125	125	28 (FYE:113)

The taxable benefits in kind relate to the use of a chauffeur-driven car by Leigh Lewis and a Private User Scheme car by Vivien Hopkins.

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 which were awarded in 2007-08 in respect of performance in the previous year. "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.

* The asterisk against the heading denotes that this information is subject to audit.

Pension Benefits *

Ministers *	Total accrued pension at age 65 as at 31/03/08	Real increase in pension at age 65	CETV at 31/03/08[1]	CETV at 31/03/07[3]	Real increase in CETV
	£000	£000	£000	£000	£000
Rt Hon John Hutton MP *Secretary of State* (to 28 June 2007)	5-10	0-2.5	87	81	2
Rt Hon Peter Hain MP *Secretary of State* (from 29 June to 23 January 2008)	10-15	0-2.5	144	134	4
Rt Hon James Purnell MP *Secretary of State* (from 24 January 2008)	0-5	0-2.5	20	18	1
Minister of State (Pensions Reform) (to 28 June 2007)	0-5	0-2.5	13	11	1
Mr Mike O'Brien MP *Minister of State* (from 30 June 2008)	5-10	0-2.5	96	87	4
Rt Hon Stephen Timms MP *Minister of State* (from 24 January 2008)	5-10	0-2.5	100	97	1
Mr Jim Murphy MP *Minister of State (Work)* (to 29 June 2007)	0-5	0-2.5	27	25	1
Rt Hon Caroline Flint MP *Minister of State* (from 30 June 2007 to 23 January 2008)	0-5	0-2.5	33	27	2
Lord McKenzie of Luton MP[2] *Parliamentary Under-Secretary (Lords)*	0-5	0-2.5	42	37	3
Mr James Plaskitt MP *Parliamentary Under-Secretary of State (Commons)*	0-5	0-2.5	16	10	4
Mrs Anne McGuire MP *Parliamentary Under-Secretary of State* *(Minister for Disabled People)*	5-10	0-2.5	76	65	5
Mrs Barbara Follett MP *Parliamentary Under-Secretary of State* (from 30 June 2007 to 11 October 2007)	–	–	–	–	–

[1]Where a minister has left the Department part way through the year, the CETV column refers to the date of leaving.

[2]Lord McKenzie was unpaid after 29 June 2007 although he remained a minister. The pension figures are given for the period ending 29 June 2007, because any changes to pension after that date are not a responsibility of the Department.

[3]Cash Equivalent Transfer Value (CETV) restated from prior year on the advice of the Authorised Pensions Administration Centre.

Ministerial pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute (the regulations are set out in Statutory Instrument SI 1993 No 3253, as amended).

Those Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and a lower rate of employee contribution.

* The asterisk against the heading denotes that this information is subject to audit.

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 from 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 or 10% of salary 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 as advised by the Government Actuary. This is currently 26.8% of the ministerial salary.

The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

The Cash Equivalent Transfer Value (CETV)

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 figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

The real increase in the value of the CETV

This is effectively the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the Minister and are calculated using common market valuation factors for the start and end of the period.

Officials *	**Accrued pension at age 60 or pension age as at 31/03/08 and related lump sum**	**Real increase in pension and related lump sum at age 60**	**CETV at 31/03/08[3]**	**CETV at 31/03/07[4]**	**Real Increase in CETV**
	£000	**£000**	**£000**	**£000**	**£000**
Leigh Lewis *Permanent Secretary*	80-85 plus 240-245 lump sum	5-7.5 plus 15-17.5 lump sum	1,881	1,567	111
Phil Wynn Owen	40-45 plus 125-130 lump sum	0-2.5 plus 2.5-5 lump sum	731	612	21
Lesley Strathie	65-70 plus 195-200 lump sum	2.5-5 plus 10-12.5 lump sum	1,330	1,091	76
Alexis Cleveland (to 22 July 2007)	45-50 plus 145-150 lump sum	0-2.5 plus 2.5-5 lump sum	895	940	22
Stephen Geraghty[1]	10-15	0-2.5	260	198	29
Terry Moran	40-45 plus 125-130 lump sum	2.5-5 plus 12.5-15 lump sum	747	572	84
Vivien Hopkins (from 23 July 2007)	40-45 plus 120-125 lump sum	2.5-5 plus 7.5-10 lump sum	945	768	72
Adam Sharples	45-50 plus 145-150 lump sum	2.5-5 plus 7.5-10 lump sum	1,051	872	39
John Codling	60-65 plus 185-190 lump sum	0-2.5 plus 2.5-5 lump sum	1,391	1,196	24
Kevin White (to 20 June 2007)	45-50 plus 140-145 lump sum	0-2.5 plus 0-2.5 lump sum	957	1,014	9
Jane Saint (from 11 June 2007 to 1 January 2008)	5-10 plus 25-30 lump sum	0-2.5 plus 0-2.5 lump sum	136	96	20
Chris Last[2] (from 2 January 2008)	0-5	0-2.5	12	0	10
Joe Harley[1]	5-10	0-2.5	130	83	31
Sue Garrard[1]	0-5	0-2.5	33	4	25
Richard Heaton	20-25 plus 70-75 lump sum	0-2.5 plus 5-7.5 lump sum	368	283	32

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

[1]Opted to join the Premium Scheme.
[2]Opted to join the Nuvos Scheme.
[3]When an official left the Department part way through the year, the CETV column refers to the date of leaving.
[4]Cash Equivalent Transfer Value (CETV) restated from prior year on the advice of the Authorised Pensions Administration Centre.

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Civil Service Pensions (CSP)

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a'final salary' scheme (**classic, premium** or **classic plus**); or a'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic, premium**, **classic plus** and **nuvos** are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings 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. **Classic plus** is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 calculated as in **premium.** In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos.**

Further details about the Civil Service pension 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 figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include 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.

Compensation for loss of office

None of the officials received compensation for loss of office during 2007-08.

Non-Executives *

Fees amounting to £106,000 (2006-07 restated £73,000) were payable to the Non-Executive Board Directors as follows:

	2007-08 Total Fees	Restated 2006-07 Total Fees
	£000	£000
Michael Sommers	30	25
John Cross[1]	46	40
Adrian Fawcett	15	4
Helen Stevenson	15	4

[1] John Cross was paid arrears of £17,600 for the 2006-07 year which were not disclosed in the Departmental Resource Account 2006-07.

Leigh Lewis
Principal Accounting Officer

18 July 2008

* The asterisk against the heading denotes that this information is subject to audit.

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department. 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 *Managing Public Money*, published by HM Treasury.

Statement on Internal Control

Scope of Responsibility

1. As Principal Accounting Officer, I am responsible for maintaining a sound **System of Internal Control** that supports the achievement of the policies, aims and objectives of the Department, whilst safeguarding the public funds and Departmental Assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

2. I have delegated some Accounting Officer responsibilities to the **Chief Executives of the Department's 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.

3. The **Department's Executive Team (ET)**, which I chair, has collective responsibility for the leadership and strategic management of the Department including its Agencies in line with Ministers' objectives, the Department's Public Service Agreements (PSAs) and our Departmental Strategic Objectives (DSOs).

4. My accountabilities and those of senior directors within the Department are formally recorded in the **Departmental Framework.** The Departmental Framework also describes our overarching governance arrangements. I have also issued **Letters of Designation** to each of my ET colleagues, which set out in more detail both their corporate and business-specific accountabilities.

5. **The Department's Three Year Business Plan for 2008-2011** sets out the high-level plan for achieving the Public Service Agreements on which we lead and our Departmental Strategic Objectives agreed as part of our CSR07 settlement. The Three Year Business Plan also contains details of our future challenges, financial allocations and how we plan to deliver our efficiency challenge.

6. I also chair the **Departmental Board (DB)**, which includes four Non-Executive Directors and which is responsible for scrutinising, challenging and providing advice on the Department's strategy, performance and governance arrangements.

The purpose of the system of internal control

7. The **system of internal control** is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, 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 the year ended 31 March 2008 and up to the date of the approval of the Annual Report and Accounts. The system of internal control is kept under review supported by the Departmental and Agency Audit committees.

The risk and control framework

8. The **Department's strategy for managing risk** is outlined in its Risk Management Framework, which sets out our policy, key principles and processes and reflects good practice in risk management. All areas of the Department are compliant with the mandatory elements of the framework. The framework adopts a standard approach across the Department, and uses a common language, to improve the reporting, sharing and communication of risk information. A range of practical **guidance, e-learning and formal risk management training courses** are available throughout the year.

9. Underpinned by further development of the DWP Balanced Scorecard, progress has been made in **aligning the reporting of risk and performance management**. ET members are both individually and collectively accountable for managing risks to the achievement of PSA and Departmental Strategic Objective targets and support me in managing the strategic risks that the Department faces in delivering its key outcomes.

10. During the course of the year we have initiated a major review of the Department's suite of financial and other frameworks and guidance to ensure that they are clear, understandable and promote compliance. We recognise that compliance and assurance also need good management information showing how effective controls are in practice. So we have fully rolled out the new Business Controls System across the Department in the latter part of 2007–08. It supports the performance of mandatory management checks. For example, it provides support to a systematic monitoring of staff access to customer data.

11. The **Department's business continuity management arrangements** are set out in the Departmental Business Continuity Framework and are championed by an ET member in his role as the Department's Business Continuity Director. Business continuity rehearsals have been undertaken across the Department, including by ET, to ensure plans are robust. 27 disruptions were effectively managed during 2007-08. The Department is also directly involved in wider cross-Government business continuity planning and rehearsals.

12. Comprehensive **Information System Security Standards** are in place and new information systems are subject to security accreditation in accordance with Cabinet Office Standards. The accreditation process itself was subject to an independent review. Recommendations from this review will be taken forward during 2008-09. Work has also commenced on a security review of selected unaccredited legacy systems. The Information Security Committee is chaired by the Department's Information Technology Director General in his capacity as the Department's Chief Information Officer and Senior Information Risk Owner. The Committee sets policy and oversees the major information security issues facing the Department. Compliance with data-protection legislation is closely monitored and action taken to minimise the risk of unauthorised disclosure of personal information.

Capacity to handle risk

13. Each quarter, ET formally reviews the Department's performance, strategic risks and associated mitigation plans which are recorded in the Department's **strategic risk register**. Management of performance and strategic risk is also subject to independent review and challenge by the Departmental Board. The Planning Performance and Risk Committee chaired by the Finance Director General supports ET and me in identifying and managing cross-cutting strategic risks.

14. The **DWP Change Programme** is implementing the Department's business strategy which aims to transform the way we deliver our services for customers in line with the Department's vision of "Work, Welfare, Well-being; Well delivered". The Department's resource allocation for CSR 07 presents us with significant challenges. Implementing this substantial programme in a Department which delivers a complex range of benefits to its customers requires effective change management and financial control to secure the benefits for the customer and to deliver the required efficiency gains. I am the Senior Responsible Officer for the Department's Change Programme and ET serve as the Programme Board. Each member of ET is personally accountable for the delivery of at least one cross-cutting element of the programme.

Review of Effectiveness

15. 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 Department's internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and by comments made by the Department's external auditors in their management letter and other reports. The Departmental Board and Departmental Audit Committee have independently advised me on the findings of these sources of assurance and I have initiated activities to address challenges and ensure continuous improvement of the system where necessary.

16. The Department is currently reviewing the efficiency and effectiveness of its risk management arrangements, reflecting its commitment to continuous improvement and to learn from best practice in the public and private sectors.

17. The **Department's Internal Audit function** provides an independent and objective assurance service through the systematic and disciplined evaluation of the adequacy and effectiveness of risk management, internal control and governance, and the provision of advice and recommendations for improvement. It continues to operate within required professional standards.

18. The **Internal Audit work programme for 2007-08** provided for coverage of the areas of greatest risk, including a clear correlation with business unit and the Department's risk registers. Throughout the year Internal Audit has continued to liaise with management to understand and evaluate changes to the Department's risk profile, and to make any appropriate changes to the assurance focus. Progress against the plan has been reported to the Departmental Audit Committee together with any significant changes to the plan and variations in the allocation of resource.

19. In his **Annual Assurance Report**, the Risk Assurance Director has highlighted that the Department has made progress in tackling the challenging internal control issues identified in previous years around the monetary value of fraud and error, levels of un-referred overpayments, information security risks and the causes of non-compliance. However, in his opinion the overall level of assurance provided by the Department's governance, risk management and control arrangements, whilst improving, remains limited. Where remedial action has been recommended to address significant control challenges, he is satisfied that the appropriate action has been taken or is planned to effect reasonable management of risks within an acceptable period of time.

20. The **Departmental Security Officer (DSO)** provides assurance that the Department is managing security risks to people, IT systems, information and buildings. The DSO evaluates threats to the Department and produces an assessment of the extent to which threats are being managed by DWP businesses, reporting to ET quarterly and the Departmental Audit Committee every six months. Although, recognising that very substantial progress towards eliminating weakness has been made in 2007-08, the DSO has assessed that the overall level of assurance around security controls remains limited.

21. Each member of the Executive Team has provided me with a **Letter of Assurance** setting out their opinion on how effectively the risks associated with the discharge of their accountabilities have been managed and, where appropriate, identifying internal control challenges. The internal control challenges identified within individual Letters of Assurance have informed those reported within this statement. Where control issues fall within the accountability of an individual Agency Chief Executive, they are reported within the relevant Agency Resource Accounts and associated Statement on Internal Control.

22. The Executive Team met on 23 June to consider the effectiveness of the System of Internal Control within the Department. At our meeting we considered the findings of the key assurance reports. While we were encouraged by the progress reported, we committed ourselves to take further significant steps to improve overall control and levels of assurance with the clear ambition to enable the overall assurance report for 2008-09 to achieve substantial assurance status.

Significant Control Challenges

23. Estimated **losses from fraud and error in the benefit system** continue to reduce. The latest published estimates are that they amounted to 2.1% of benefit spend in 2007-08, a reduction from the 2.2% reported in 2006-07, although the monetary value remained constant at £2.7 billion. The reduction in the proportion of benefit expenditure was due to a decrease in the level of customer error from 0.8% in 2006-07 to 0.7% of benefit expenditure during 2007-08. The level of fraud, at 0.6% of benefit expenditure, and official error, at 0.8% of benefit expenditure, remained constant.

24. To help drive further improvement, a new dedicated post of **Director of Benefit Performance** has been created and the first incumbent took up post on 18 June 2007. The Director will be responsible to the Director General of WWEG and to ET for delivery of Departmental Strategic Objective 6 to pay our customers the right benefit at the right time. The creation of the new post reflects the Department's determination to reduce further both fraud, official and customer error.

25. The **Official Error Reduction Task Force's** error cleansing activities continue to make good progress with over £3.1 million of weekly errors identified and corrected by February 2008.

26. **The Department's comprehensive error reduction strategy** "Getting Welfare Right: Tackling Error in the Benefit System" was launched in January 2007. The strategy tackles both customer and official error and aims to deliver estimated AME savings of around £1 billion by 2012. Implementation of the strategy continues with over 85% of the initial initiatives now implemented. Although implementation is largely on course, there was a shortfall in savings achieved during 2007-08. Reasons for this include initial delays in the implementation of some initiatives, the withdrawal of some and others not being as effective as previously envisaged. However, through additional activities identified we remain confident that we will achieve the £1 billion savings by 2012. The reason this effort has not been reflected in the figures yet is mainly due to the time lag in measurement data but also due to the extensive transformation programme within the Department's business.

27. Our focus on targeting **benefit fraud** continues and was reported favourably by the NAO during the course of the year (DWP – Progress on Tackling Benefit Fraud (23rd January 08)). Amongst more recent developments initial pilots of Voice Risk Analysis technology by local authorities and Jobcentre Plus are currently being evaluated with the results expected later this year. Further funding of £1.5 million has been made available for the next phase of local authority pilots. Data matching with Credit Reference Agencies went live nationally in May and will provide investigators with a new tool to combat 'living together' fraud – the biggest single cause of fraud in Income Support. We continue to tackle so called 'abroad fraud' having put in place a number of preventative measures such as reminding people in the latest Targeting Fraud campaign that they need to tell us if they are going abroad. We have also enhanced our leaflets to make the effect on benefit entitlement of leaving the country clearer and have begun to introduce arrangements requiring recipients of state pensions resident abroad to return 'proof of life' certificates as a condition of continuing payment.

28. During the course of the year each of our Agencies has identified that they may not have received all of the notifications they require from the HM Revenue and Customs **National Insurance Records System (NIRS2)**. This may mean that a number of customers have received incorrect benefit awards. The Department's Audit Committee has commissioned a review of this issue to inform any remedial action required. Additionally, an enhancement to the NIRS2 system to recognise discrepancies in customers paid and credited National Insurance Contributions is planned for October 2008. We have also identified an issue where duplicate or insufficient National Insurance credits may have been allocated where customers are receiving more than one benefit and this may have impacted on some benefit awards. We have established a cross-departmental task force to address this issue.

29. **Debt recovery** targets have been a continuing priority for the Department. In 2007-08 we exceeded our target of £268 million for the year and recovered a record amount of £271.6 million. We have set another challenging target for Debt Management of £279 million for 2008-09.

30. As part of this overall effort, record numbers of overpayments were referred to Debt Management by the Department's Agencies in 2007–08. For 2008-09 we have agreed targets for the Department's Agencies which will mean that we will sustain the improvement achieved during 2007-08 so that virtually all overpayments identified in the year will be referred to Debt Management.

31. During 2007–08 we also conducted a number of exercises to look at previously un-referred overpayments for years prior to 2007-08. These exercises have shown that it is not cost effective to continue to pursue these overpayments as it would cost more to identify them than we would get back in recoverable debt. We have reviewed these findings and are satisfied that the values and volumes of previously un-referred overpayments are not proportionate in comparison to the cost associated with finding them. A statement relating to these overpayments has been included in the losses note 41 to these accounts.

32. The overall position surrounding document retrieval has continued to improve during the year although ongoing issues and increases in storage and retrieval requirements have had a consequential impact on our external contractor's ability to deliver to agreed service standards. The Department is working closely with the contractor to address these issues. Jobcentre Plus has continued to implement a number of initiatives to further improve the standard of decision making in processing applications to the **Social Fund**. These include the introduction of a new standard application form which has been designed to capture all of the relevant information upon which a sound decision can be made.

33. We focussed heavily in 2007-08 on the **security of information** we hold. The Department has fully supported the Cabinet Office Data Handling Review and I am a member of its steering group chaired by the Cabinet Secretary. We have within the Department also tackled and eliminated a number of weaknesses in our security arrangements in relation to bogus callers, management checks, the security of employee data, and missing case papers. In each of these areas we have agreed a number of additional controls and put in place a programme of work to address weaknesses, strengthen existing controls and encourage the adoption of good practice. The Information Security Committee plays a key role in directing this work

34. The **Child Maintenance and Enforcement Commission**, a Non-Departmental Public Body, will come into existence in 2008 and will take forward the delivery of child maintenance. In the interim the **Child Support Agency** is continuing the successful delivery of its Operational Improvement Plan, which has seen its overall performance improve very substantially. As in previous years, however, the Child Support Agency has experienced a number of problems with its computer systems. These include weaknesses in security, accounting for client funds, management information and general throughput of work. The Agency has agreed a prioritised programme of work with key technology suppliers to rectify a number of the remaining problems and to support other more fundamental changes within the context of its Operational Improvement Plan.

Leigh Lewis
Principal Accounting Officer

18 July 2008

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

I certify that I have audited the financial statements of the Department for Work and Pensions for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes Corporate Governance, Management Commentary and the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, Corporate Governance, Management Commentary and the unaudited part of the Remuneration Report is consistent with the financial statements. I also report 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.

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

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Annual Report, Corporate Governance, Management Commentary and the unaudited part of the Remuneration Report. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2008, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and

- information which comprises the Annual Report, Corporate Governance, Management Commentary and the unaudited part of the Remuneration Report, is consistent with the financial statements.

Qualified opinion on regularity

The Operating Cost Statement records benefit expenditure of £126.1 billion. As shown in Note 44 to the Accounts, some £57.5 billion (45.6 per cent) of this expenditure relates to State Pension payments and £68.6 billion (54.4 percent) to other benefits administered by the Department. The Department estimates that in 2007-08 fraud and error within State Pension expenditure resulted in relatively minor overpayments of £0.11 billion (0.2 per cent of related expenditure) and underpayments of £0.09 billion (0.2 per cent of the relevant expenditure). For other benefits, however, the Department estimates that fraud and error resulted in overpayments of £2.5 billion (3.8 per cent of relevant expenditure) and underpayments of £1.0 billion (1.4 per cent of relevant expenditure). Where fraud and error result in over or underpayment of benefits the transactions are not in conformity with the primary legislation which specifies the entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid.

I have therefore qualified my opinion on the regularity of benefit expenditure other than State Pension because of: the level of overpayments attributable to fraud and error which have not been applied to the purposes intended by Parliament; and because of the level of under and over payments in such benefit expenditure which are not in conformity with the relevant authorities.

In my opinion, except for the level of fraud and error in certain benefit expenditure as referred to above, in all material respects the revenue and expenditure have been applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Details of these matters are set out in my accompanying report.

T J Burr
Comptroller and Auditor General

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

21 July 2008

Report by the Comptroller and Auditor General

Introduction

1 The resource accounts of the Department for Work and Pensions include expenditure of £135.2 billion on benefits, employment programmes and their related administration costs, together with the assets and liabilities at the year end.

2 Under the Government Resources and Accounts Act 2000, I am required to give an opinion on whether, in all material respects:

i. The Department's resource accounts give a true and fair view of the state of the Department's affairs as at 31 March 2008, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses, and cash flows for the year then ended; and

ii. Expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them (the "regularity" opinion).

3 From 1999-2000[1] to 2006-07 the audit opinion on the truth and fairness of the accounts was qualified because of material uncertainties over the completeness of debtors arising from overpayments of benefits. For 2007-08, the Department has obtained agreement from the Treasury not to pursue potential overpayments arising prior to 1 April 2007 other than those identified in the normal course of business, as to do so would not represent value for money. It has also implemented improvements in its systems for recovering benefit overpayments arising from changes in claimants' circumstances. I have therefore been able to satisfy myself that debtors at 31 March 2008 show a true and fair view of amounts due to the Department.

4 This year, as in recent years, the Department has continued to address the matters which give rise to the longstanding qualifications of my opinion. The increase in the level of benefit overpayments referred for recovery means that I no longer need to qualify my opinion on the truth and fairness of the Department's accounts. This is a significant milestone towards meeting the Department's declared ambition to enable its accounts overall to be free of qualification. Paragraphs 47 to 53 of this report describe the Department's actions to improve assurances about the level of overpaid benefit debtors reported in the accounts and provide more detail on the reasons which have enabled me to conclude that I should no longer qualify my opinion in respect of these amounts.

5 I have nevertheless qualified the regularity aspect of my audit opinion on the Department's 2007-08 accounts because of the material level of fraud and error in benefit expenditure, other than State Pension which accounts for nearly half of that expenditure and has a low level of error. Primary legislation specifies entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. Where benefit is paid to an individual who is not entitled to that benefit or at a rate which exceeds that specified in the legislation, the excess expenditure has not been applied to the purposes intended by Parliament. Where the Department makes benefit payments at rates either more or less than those specified in legislation then such transactions do not conform to the authorities which govern them.

6 Note 44 to the Department's resource accounts discloses the best estimate of all such payments. As shown in Note 44 to the Accounts, some £57.5 billion (45.6 per cent) of this expenditure relates to State Pension payments and £68.6 billion (54.4 percent) to other benefits administered by the Department. The Department estimates that in 2007-08 fraud and error within State Pension expenditure resulted in overpayments of £0.11 billion (0.2 per cent of related expenditure) and underpayments of £0.09 billion (0.2 per cent of the relevant expenditure). The Department also estimates that, for other benefits, fraud and error resulted in overpayments of £2.5 billion (3.8 per cent of relevant expenditure) and underpayments of £1.0 billion (1.4 per cent of relevant expenditure). Where fraud and error results

[1] 1999-2000 was the first year of Resource Accounting in central government and therefore the first time that the Comptroller and Auditor General was required to give an opinion on balance sheet disclosures.

in over or underpayment of benefits the transactions are not in conformity with the primary legislation which specifies the entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid.

7 I have therefore qualified my opinion on the regularity of benefit expenditure other than State Pension because of: the level of overpayments attributable to fraud and error which do not conform to Parliament's intention; and because of the level of under and over payments in such benefit expenditure which are not in conformity with the relevant authorities. This report provides further explanation of the reasons for my qualified audit opinion and comments on the challenges faced, and actions being taken, by the Department to reduce the level of fraud and error in benefit expenditure (paragraphs 8 to 46).

Benefit expenditure

8 Total expenditure on benefits in 2007-08 was some £126.1 billion of which £106.5 billion was in respect of benefits paid directly by the Department and £19.6 billion in respect of benefits paid on the Department's behalf by local authorities. Note 44 to the Department's resource accounts sets out expenditure by benefit type and the extent of fraud and error as estimated by the Department. The note also explains the extent of statistical uncertainty inherent in these estimates. The estimate of fraud and error disclosed in the accounts is, nevertheless, the best measure currently available and the Department has been at the forefront of fraud and error measurement[2].

9 For 2007-08 the Department estimates that losses of £2.7 billion have arisen through overpayment of benefits to claimants, representing 2.1 per cent of benefit expenditure, compared to £3.3 billion or 3.2 per cent of expenditure in 2000-01, the first year for which such estimates were produced. These figures are not directly comparable as the Department has introduced a number of improvements to its measurement processes during this period. The 2000-01 estimates included payments of Disability Living Allowance, reported as overpayments, which were due to gradual improvements in the medical status of claimants, so that the level of benefit in payment would no longer have been considered to be appropriate to the claimants' current status if it had been reviewed. From 2004-05, following the National Benefit Review of Disability Living Allowance, these payments, estimated at that time as £700 million, have been omitted from estimated overpayments reported by the Department, because no specific date has been determined at which a change in health impacts on the claimant's entitlement. Until a fresh assessment of the claimant's health is carried out, the existing level of benefit remains consistent with legal requirements.

10 In the past year, overpayments have remained flat at £2.7 billion (£2.7 billion in 2006-07). The increase in overall expenditure on benefits between the two years has resulted in overpayments as a percentage of benefit expenditure reducing from 2.2 per cent to 2.1 per cent. Figure 1 shows the value and percentage of overpayments over the past 5 years.

Figure 1: Overpayments of benefit expenditure in the last five years

Year	Total benefit expenditure £ billion	Due to Official error £ billion	Due to Customer error £ billion	Due to fraud £ billion	Total £ billion	Percentage of total benefit expenditure
2007-08*	126.1	1.0	0.9	0.8	2.7	2.1
2006-07**	119.8	0.9	1.0	0.8	2.7	2.2
2005-06	115.8	0.9	1.0	0.8	2.7	2.3
2004-05	110.9	0.9	0.8	0.9	2.6	2.3
2003-04	105.8	0.8	0.7	1.0	2.6	2.4

Source: Department for Work and Pensions Resource Accounts

*State Pension has been included for comparative purposes only. This year the audit opinion has not been qualified in respect of fraud and error relating to this benefit.

** 2006-07 figures were re-stated subsequent to publication of the 2006-07 Resource Accounts.

2 My report "International Benchmark of Fraud and Error in Social Security Systems" (HC1387 2005-06) noted that the Department compared well with other countries in its focus and initiatives to combat fraud and error.

11 Within total benefit expenditure of £126.1 billion in 2007-08, State Pension accounts for £57.5 billion (45.6% of benefit expenditure). The Department has consistently reported lower levels of error in State Pension with under 0.2% of overpayments by value. Excluding State Pension, the level of error reported this year by the Department is 3.8%.

12 The Department also estimates that underpayment of benefits represents some £1.1 billion or 0.8 per cent of expenditure, an increase on 2004-05, the earliest available figures, when estimated underpayments were £0.8 billion (0.7 per cent of expenditure in that year). Underpayments for 2006-07 were estimated at £1 billion, equivalent to 0.8 per cent of expenditure in that year. More detailed analysis of errors from underpayments is only available in a consistent form from 2005-06 and is shown in Figure 2. The Department considers that the increase in the value of underpayments over the three years at least in part reflects improvements in its procedures for measuring and estimating underpayments across that period.

Figure 2: Underpayments of benefit expenditure in the last three years

Year	Total benefit expenditure £ billion	Due to Official error £ billion	Due to Customer error £ billion	Total £ billion	Percentage of total benefit expenditure
2007-08*	126.1	0.44	0.64	1.1	0.8
2006-07	119.8	0.4	0.6	1.0	0.8
2005-06	115.8	0.4	0.5	0.9	0.8

Source: Department for Work and Pensions Resource Accounts

*State Pension has been included for comparative purposes only. This year the audit opinion has not been qualified in respect of fraud and error relating to this benefit.

Excluding the low level of underpayment on State Pension, which again is estimated to be below 0.2%, the percentage of estimated underpayments during 2007-08 is 1.4%

13 The majority of benefits paid directly by the Department in 2007-08 were processed through its three agencies: Jobcentre Plus, The Pension Service and the Disability and Carers Service[3]. Housing Benefit and Council Tax Benefit are administered by local authorities who receive grant from the Department to fund the payments they make. The overall improvement in performance has been achieved alongside efficiency savings entailing a net reduction of over 30,000 staff.

The Department's Agencies

14 Jobcentre Plus is the largest of the Department's agencies, employing around 67,000 staff working through 51 districts and with 87 benefit delivery centres and 31 contact centres. Jobcentre Plus is directly responsible for administering some £22 billion of payments covering around 6.7 million claims during 2007-08. Principal benefits administered are Income Support, Jobseeker's Allowance and Incapacity Benefit (£18 billion in total in 2007-08). The Agency is also responsible for Bereavement Benefit, Statutory Maternity Pay, Severe Disablement Allowance and Industrial Injuries Benefit (£4 billion in total in 2007-08). Jobcentre Plus also acts as a gateway for a number of other benefits such as Housing Benefit and it manages the Fraud Investigation Service for the Department as a whole. The Service operates the National Fraud Hotline.

[3] The Pension Service and the Disability and Carers Service merged to become the Pension, Disability and Carers Service on 1st April 2008.

15 The Disability and Carers Service employed around 6,000 staff and was responsible for some £15.6 billion of benefit expenditure covering Disability Living Allowance, Attendance Allowance, and Carers Allowance. The Service has approximately 5.6 million claimants. Disability Living Allowance and Attendance Allowance are non means tested, tax free benefits for people who require help with personal care or who have mobility difficulties due to physical or mental disabilities. Unlike most other benefits they are not conditional on employment or low income. Carers Allowance makes a contribution to the financial needs of people who, for 35 hours a week or more, care for severely disabled persons in receipt of Disability Living Allowance or Attendance Allowance. Additionally the Agency handled Vaccine Damage Payments of around £1 million which are one-off tax free payments made to people who have suffered severe disability as a result of vaccination against certain diseases.

16 The Pension Service employed around 12,000 staff paying benefits of some £67 billion to approximately 12 million pensioners. State Pension is the principal benefit together with State Pension Credit accounting for around £64.2 billion of expenditure. The Agency also administered around £2.3 billion of Winter Fuel Payments and pensioners' Christmas Bonuses. State Pension is predominantly contributory and is funded by the National Insurance Fund. Pension Credit is a means tested benefit for those whose income falls below a minimum guaranteed level. Winter Fuel Payments are made annually to help people aged 60 and over with the costs of heating and are paid at a weekly rate when the temperature drops below the qualifying threshold. The Christmas Bonus is a non-means tested annual payment.

17 The Department is also responsible for paying grants to 408 first-tier local authorities in England, Scotland and Wales to fund Housing Benefit and Council Tax Benefit. Payments of grant are made on account and each local authority provides an audited statement annually to the Department on which the final entitlement to the grants is based. Adjustments to amounts paid by the Department are made in the following year.

Performance across benefit streams

18 Performance across different benefit streams varies significantly as shown in Figure 3. The benefits system is complex, encompassing over 27 individual benefits and involving a caseload of around 19 million people during 2007-08. Some benefits are more easy to administer than others, including for example the Christmas Bonus to pensioners, which is payable to all claimants of State Pension age, Severe Disablement Allowance and some other incapacity related benefits, which are payable at a flat rate. Other benefits are more complex and more prone to fraud and error. Means tested benefits such as Jobseeker's Allowance or Income Support, for example, require consideration of a range of income and expenditure information for a potential claimant to establish eligibility to, and the value of, the benefit and may be subject to numerous changes as the claimant's circumstances change.

19 Additionally, the benefits system is targeted at those most in need of assistance in society, many of whom may not find it easy to supply the personal data required because of their lifestyle, personal circumstances, learning and literacy difficulties for example. The Department's staff have often to make complex judgements based on information provided by the claimant and often within tight timescales. These factors contribute to the propensity for fraud and error in the benefits system.

Figure 3: Analysis of fraud and error by benefit category and error type for 2007-08

Benefit	Total expenditure £ billion (Percentage of total)	Over-payments £ billion (as a percentage of total expenditure on those benefits)	Fraud £ billion (%)	Customer error £ billion (%)	Official error £ billion (%)
Income related benefits directly administered by Department	£18.7 bn (14.8%)	£0.98 bn (5.3%)	£0.44 bn (2.4%)	£0.19 bn (1.0%)	£0.36 bn (1.9%)
Income related benefits administered by local authorities on Department's behalf	£19.6 bn (15.5%)	£0.92 bn (4.7%)	£0.17 bn (0.9%)	£0.49 bn (2.5%)	£0.26 bn (1.3%)
Total income related benefits	£38.3 bn (30.4%)	£1.90 bn (5.0%)	£0.61 bn (1.6%)	£0.68 bn (1.8%)	£0.62 bn (1.6%)
Contributory, disability and other non-income related benefits	£87.8 bn (69.6%)	£0.8 bn (0.9%)	£0.19 bn (0.2%)	£0.22 bn (0.3%)	£0.38 bn (0.4%)
Overall total	**£126.1 bn**	**£2.7 bn (2.1%)**	**£0.8 bn (0.6%)**	**£0.9 bn (0.7%)**	**£1.0 bn (0.8%)**

Source: Departmental data

20 Fraud and error are lowest for those benefits which are easier to claim and relatively easy to determine such as those where entitlement is based on contributions paid. In 2007-08, although contributory, disability and other benefits accounted for almost three quarters of all benefit expenditure, overpayment errors accounted for just over a third of all losses. Overpayments on contributory, disability and other non-income related benefits were some £0.8 billion or just under 1 per cent of the amounts paid out. Official error was the most significant cause of overpayment error, accounting for just under half (£380 million) of the estimated total sum lost on such benefits.

21 Fraud and error are more frequent on income related benefits. These benefits require a claimant's financial circumstances to be taken into account and small changes in those circumstances can have a material impact on entitlement. Income related benefits represent just over a quarter of all benefit payments but incur just under two thirds by value of the total estimated overpayment error. The total estimated value of fraud and error is around 5 per cent of sums paid out in contrast to just under one per cent for the easier to determine and administer benefits. In focussing my examination on those areas with the higher levels of error, the aim is to direct attention to the issues offering most scope for continued improvement.

22 The causes of fraud and error on income related benefits are attributable broadly equally to fraud, customer error and official error. For income related benefits administered directly by the Department, however, fraud is the largest cause of overpayments at 2.4 per cent of expenditure and official error the second largest, representing around 1.9 per cent of sums paid out. Customer error costs around 1 per cent of expenditure. Local authorities are responsible for administering Housing and Council Tax benefit on the Department's behalf, and for these benefits customer error is the primary cause of overpayments, followed by official error then fraud.

23 Customer error presents its own challenges. In awarding benefit, the Department has to decide whether on the balance of probabilities the claimant is entitled to it. The Department needs sufficient evidence to make that decision: it should not give the claimant the benefit of the doubt. But nor can it always expect to establish entitlement beyond reasonable doubt. There may therefore be cases in which the Department is obliged on the available evidence to make an award, which would not therefore be without authority though an undetected element of customer error might still be present. It is not at

present possible, however, to estimate the proportion of such error that the Department might reasonably have been expected to detect; nor to determine whether in all such cases the customer error was genuinely in good faith.

Contributory, disability and other benefits

24 Figure 4 analyses overpayments due to fraud and error on contributory, disability and other benefits by benefit stream. Fraud and error are lowest in State Pension because the benefit is easy to claim, relatively straightforward to determine, and largely unaffected by changes in circumstances. State Pension is the largest single benefit stream accounting for some £57.5 billion or around 45 per cent of the total expenditure of £126.1 billion but attracts overpayments of only 0.2 per cent. Incapacity Benefit and Disability Living Allowance attract similar over-payment rates of just less than 2 per cent of expenditure with Incapacity Benefit being more prone to official error than other contributory benefits. The qualifying criteria for Incapacity Benefit are more complex, including the requirement for a certain level of National Insurance credits, and the potential for entitlement to change in the shorter term.

Figure 4: Analysis of fraud and error in contributory, disability and other benefits by benefit stream and error type for 2007-08

Contributory and disability benefits	**Total expenditure £ billion (Percentage of total)**	**Over-payments £ billion (as a percentage of total expenditure on those benefits)**	**Fraud £ billion (%)**	**Customer error £ billion (%)**	**Official error £ billion (%)**
Incapacity benefit	£6.7 bn (5.3%)	£0.12 bn (1.7%)	£0.01 bn (0.1%)	£0.02 bn (0.2%)	£0.09 bn (1.3%)
State Pension	£57.5 bn (45.6%)	£0.12 bn (0.2%)	£ nil (N/A)	£0.05 bn (0.1%)	£0.07 bn (0.1%)
Disability Living Allowance	£9.9 bn (7.9%)	£0.18 bn (1.9%)	£0.05 bn (0.5%)	£0.06 bn (0.6%)	£0.08 bn (0.8%)
Other non-income related benefits (includes Carers and Attendance Allowance, Maternity Pay etc)	£13.7 bn (10.9%)	£0.38 bn (2.8%)	£0.13 bn (0.9%)	£0.09 bn (0.7%)	£0.14 bn (1.0%)
Total contributory, disability and other non-income related benefits	£87.8 bn (69.6%)	£0.8 bn (0.9%)	£0.19 bn (0.2%)	£0.22 bn (0.3%)	£0.38 bn (0.4%)
Total benefit expenditure including income related benefits	**£126.1 bn**	**£2.7 bn (2.1%)**	**£0.8 bn (0.6%)**	**£0.9 bn (0.7%)**	**£1.0 bn (0.8%)**

Source: Departmental data

25 The majority (99.8%) of the value of State Pension in payment is contributions based. The level of fraud and error in State Pension has been consistently low because the benefit calculation is based on National Insurance records and is not dependent on information supplied by the claimant. Accuracy is therefore largely dependent on the accuracy of records of National Insurance Contributions throughout the claimant's working life. HM Revenue and Customs are responsible for maintaining National Insurance records and for their accuracy. The Department's estimates therefore assume that the records are reliable. Reported error arises largely from revisions to the National Insurance Recording System which are not carried through into benefit payments, and from a small number of cases where the award has been incorrectly calculated.

26 The Department does not carry out continuous testing of the accuracy of Disability Living Allowance because the benefit has historically been subject to lower levels of fraud and error. The level of overpayments is therefore estimated by the Department based on the proportion of errors reported in a National Benefit Review of Disability Living Allowance carried out in 2004-05. The estimated overpayments of 1.9 per cent exclude payments which may arise because the rate of payment has not reflected improvements in the current medical status of the claimant whose case has not been reviewed, as described in paragraph 9 of this report. These payments may arise from gradual improvements in the health of individuals and the Agency is not able to determine with any accuracy the exact point in time at which the improvement would have warranted a change in benefit award. The estimate of overpayments within Incapacity Benefit is based on a National Benefit Review undertaken in 2000-01.

Income related benefits

27 Figure 5 analyses overpayments on income related benefits by benefit stream and error type. Income related benefits administered directly by the Department attract broadly similar overpayment rates of just over 5 per cent of expenditure with fraud being the largest cause of overpayments on Income Support and Jobseeker's Allowance and official error on Pension Credit. The reduced proportion of fraud in Pension Credit is likely to be attributable to the apparent lower propensity to commit fraud in certain age groups. The higher level of official error is attributable to the complexity of this benefit, although the Department has introduced measures to simplify administration. Whilst customer error accounts for only a small amount (0.3 per cent) of overpayments on Jobseeker's Allowance, it is the cause of around 1 per cent of fraud and error on the other two income related benefits administered by the Department. Customer error is also the most significant factor on Housing and Council Tax Benefit administered by local authorities for the Department.

Figure 5: Analysis of fraud and error in income related benefits by benefit stream and error type for 2007-08

Income related benefits	**Total expenditure £ billion (Percentage of total)**	**Over-payments £ billion (as a percentage of total expenditure on those benefits)**	**Fraud £ billion (%)**	**Customer error £ billion (%)**	**Official error £ billion (%)**
Income Support	£9.1 bn (7.2%)	£0.48 bn (5.3%)	£0.26 bn (2.9%)	£0.08 bn (0.9%)	£0.14 bn (1.5%)
Jobseeker's Allowance	£2.2 bn (1.7%)	£0.11 bn (5.0%)	£0.07 bn (3.0%)	£0.01 bn (0.3%)	£0.04 bn (1.7%)
Pension Credit	£7.4 bn (5.9%)	£0.39 bn (5.3%)	£0.11 bn (1.5%)	£0.10 bn (1.3%)	£0.18 bn (2.5%)
Income related benefits directly administered by Department	£18.7 bn (14.8%)	£0.98 bn (5.3%)	£0.44 bn (2.3%)	£0.19 bn (1.0%)	£0.36 bn (1.9%)
Housing and Council Tax Benefit administered by local authorities on Department's behalf	£19.6 bn (15.5%)	£0.92 bn (4.7%)	£0.17 bn (0.9%)	£0.49 bn (2.5%)	£0.26 bn (1.3%)
Total income related benefits	£38.3 bn (30.4%)	£1.90 bn (5.0%)	£0.61 bn (1.6%)	£0.68 bn (1.8%)	£0.62 bn (1.6%)
Total benefit expenditure including contributory, disability and other benefits	**£126.1 bn**	**£2.7 bn (2.1%)**	**£0.8 bn (0.6%)**	**£0.9 bn (0.7%)**	**£1.0 bn (0.8%)**

Source: Departmental data

28 The higher than average levels of fraud and error in Income Support and Jobseeker's Allowance reflect the means tested basis of those benefits and their comparative complexity. Pension credit is also a means tested benefit and relies on customers providing accurate information at the outset of the claim as well as notifying any subsequent changes in circumstances. Benefits which are contingent on income, on availability for work, or (as in the case of some contributory and disability benefits) on medical evidence, are inherently more difficult to determine, not least because all of these entitlement conditions are subject to variation over time.

29 The Department relies partly on local authorities' external auditors to certify the regularity of grant claims in respect of Housing and Council Tax benefit. It also checks directly the accuracy of payments in respect of Housing Benefit (which it uses to estimate fraud and error in Council Tax Benefit, a comparatively small benefit). Housing and Council Tax Benefits are means tested, and may also depend on whether the claimant is in receipt of "passport" benefits such as Jobseeker's Allowance. Errors made in administering those benefits can therefore affect the level of fraud and error within Housing and Council Tax Benefits. The level of estimated fraud and error varies significantly between claimants. For those of working age the rate is estimated at 6.1 per cent whilst for those of pensionable age the rate is 2.3 per cent.

Initiatives to reduce fraud and error

30 The Department and its agencies have a number of initiatives underway to reduce the level of fraud and error in benefit payments:

The Pension Service

31 In January 2002 The Pension Service launched its Pensions Transformation Programme with the aim of transforming the way in which its core services are delivered. A principal objective of the scheme is to enable information collected for State Pension purposes to be used within a State Pension Credit application, the latter being more prone to fraud and error as a means tested benefit. The programme has been rolled out across pension centres, supported by new IT systems. Pension Credit was introduced in October 2003 and since 2003-04 the overall level of fraud and error has remained constant at around 5.3%. Fraud has increased from 1.3 per cent in 2003-04 to 1.5 per cent in 2007-08 and official error has risen from 2.1 per cent to 2.5 per cent. Customer error has been reduced from 2 per cent in 2003-04 to 1.3 per cent in 2007-08, as a result of information campaigns and improved leaflets.

32 In 2005-06 The Pension Service launched its Programme Protection Strategy to assist in the reduction of fraud and error. This programme aims to improve working practices to reduce the incidence of new errors. It has introduced a programme of checks designed to correct errors in existing benefit awards and improved management information to aid the better targeting of preventative and corrective action.

Disability and Carers Service

33 From 2007-08 the Disability and Carers Service introduced a Right Payment Programme for Disability Living Allowance, the major benefit in its workload and which also acts as a passport for other disability related benefits. As part of this programme the Disability and Carers Service has undertaken a postal survey to identify the current status of claimants. The survey comprises a sample of claimants judged by the Service as having the greatest propensity for a change in circumstances, together with a random sample of all recipients which will provide a measure of the potential monetary value of fraud and error in the benefit.

34 Over half of the Service's customers were over pensionable age, and the merger of the Disability and Carers Service with The Pension Service from 1 April 2008 is intended to aid a more co-ordinated approach to delivering products and services designed around customers' needs, to share expertise and to improve customer service.

Jobcentre Plus

35 The overpayment rate for Income Support and Jobseeker's Allowance has reduced significantly since 2003-04 from £820 million (7.8 per cent of expenditure) to £590 million (5.2 per cent of expenditure) in 2007-08. In 2006-07 Jobcentre Plus introduced an Enhanced Checking Regime aimed at reducing the level of official error in the calculation of the complex benefits within its responsibilities. Specialist checking teams have been established in each Benefit Processing Centre which undertake targeted and random checks on benefit calculations. Benefit claim processing teams are made aware of common errors identified through the checks, and where appropriate internal training programmes have been updated.

Departmental Initiatives

36 Alongside action by the Department's Agencies, the Department has implemented a number of initiatives to reduce fraud and error. In our recent report[4] on progress in tackling benefit fraud we drew attention to initiatives to combat fraud including advertising campaigns, fraud investigation procedures, customer compliance, data-matching, the National Benefit Fraud Hotline and prosecutions. Our main conclusions were as follows.

- Good progress had been made in reducing the estimated value of benefit fraud, which represented a substantial achievement by the Department and its staff.
- The Department has developed a more risk-based and intelligence-led approach to countering fraud, using a risk assessment tool to prioritise cases, and had started to roll out a new case management system to speed up processing and consistency in handling of cases. The Department has also introduced a "customer compliance function" to deal with lower risk cases.
- The Department is ahead of equivalent bodies in other countries in understanding and tackling the problem of fraud.

37 We also reported that the Department could further improve its performance through:

- improved management information on the cost and effectiveness of counter-fraud measures and the effectiveness of customer compliance work; and
- creating better cohesion in targets between different parties involved in countering fraud, including debt recovery.

38 Official error is directly within the Department's control and, in January 2006, it established an Official Error Task Force aimed at supporting a demonstrable and measurable reduction in benefit complexity and, by implication, official error rates. Building on this initiative, in January 2007, the Department published "*Getting Welfare Right: Tackling Error in the Benefit System*", a strategy designed to achieve £1 billion of savings from overpayments by 2012 but also focussing on reducing errors resulting in underpayments to claimants.

39 The Department is attempting to minimise customer error by simplifying benefits where possible, and in 2005 a dedicated Benefit Simplification Unit was established. On Pension Credit, for example, the Department has reduced the amount of evidence which the claimant needs to produce in support of a claim.

40 The Department aims to enhance customer engagement through establishing single points of contact covering several benefits. Restructuring within The Pension Service for example, now enables the same staff to deal with queries about State Pension and Pension Credit entitlements. For a number of years, Jobcentre Plus has acted as a gateway for applications for a wide range of benefits, many of which are administered by other Agencies within the Department. In April 2008, the Disability and Carers Service merged with The Pension Service to provide a more joined-up approach to administering multiple benefits to individual claimants.

[4] Department for Work and Pensions – Progress in tackling benefit fraud (HC 102 2007-08)

41 The Department has also rationalised the literature available to customers to assist them in understanding whether they are eligible to specific benefits and, if so, their entitlements and the evidence they will be required to provide.

Working with local authorities

42 For Housing and Council Tax Benefit the Department provides full grant funding for expenditure which is deemed by the Department to be beyond the local authority's direct control, and a sliding scale of funding for overpayments which arise from errors made by local authority staff. The Department has also established a performance management regime to encourage local authorities to adopt best practice in the administration of Housing Benefit, including a new output based performance measure from April 2007. The performance measure sets each local authority a target for identifying reductions in benefits overpaid and to prevent overpayments due to customer error entering the system. Such initiatives have helped to reduce fraud over recent years and the Department's action plan aims to achieve further sustainable reductions over the period to March 2011. From 1 April 2008, responsibility for work previously undertaken by the Benefit Fraud Inspectorate has been transferred to the Audit Commission who will be able to combine the activity with their own work in this area as the external auditors of local government.

Conclusion on fraud and error

43 I welcome the efforts being made by the Department to further improve the accuracy of benefit payments. The transparency of the Department's performance in tackling fraud and error is greatly enhanced by the disclosures in Note 44 to the accounts. For example, it is clear that income related benefits represent just over a quarter of all benefit expenditure, but incur just under two thirds by value of all overpayment errors made, with fraud and error rates of around 5 per cent.

44 Equally clear is that the Department has reported significant success in tackling fraud, which represents £0.8 billion of overpayments and 30 per cent of the loss to the Exchequer. We acknowledged in our recent report[5] that, having made this progress in recent years, the Department would find it increasingly difficult to make significant further savings year on year.

45 On customer error, the Department has not reported any progress on its overall performance since 2000-01. Customer error will always remain a challenge. System and process design and application can help to minimise customer error but is unlikely to eliminate it entirely. The Department is focussing on increasing customer awareness and accessibility to the Department and the provision of quality advice by its staff.

46 Official error has increased as a percentage of the value of fraud and error with the complexity of many benefits representing a major factor. Official error amounts to some £1 billion of the loss to the Exchequer (37 per cent of the total reported loss). The Department recognises that reducing official error is more readily within its control than some other causes of fraud and error and has a task force in place aimed at improving accuracy. In 2009-10, I plan to report to Parliament in more detail on the Department's actions to reduce official error, with a view to promoting a better understanding of the causes and possible remedies.

Debt due from customers due to the overpayment of benefits

Background

47 Where a customer of the Department or its Agencies is overpaid benefits, for example because their circumstances have changed, the identified overpayment is in principle recoverable. In previous years the opinion on the Department's accounts have been qualified because it was not clear that the Department had identified and recorded in its accounting records all the sums due to it. The reasons for the qualified opinion on the completeness of debtors in the accounts were as follows.

[5] Department for Work and Pensions – Progress in tackling benefit fraud (HC 102 2007-08)

- The Department held and was receiving information that could be used to identify and recover previously overpaid benefits, but did not process such information in a timely or consistent way.

- This failure to recover debts arising from benefit overpayments had occurred over many years with the likelihood that the potential unpursued debt arising from benefit overpayments was a substantial amount.

Progress made in 2007-08

48 During 2007-08 the Department and its agencies have continued to improve their performance in identifying overpayments and increasing significantly the rate at which those overpayments are referred to the central debt management team for assessment and recovery. The Department considers that by March 2008 the majority of overpayments that could be identified in the normal course of business were being referred for recovery decisions in a timely manner. Figure 6 shows the increase in referrals and recoveries between 2005-06 and 2007-08, including the year on year percentage increases. In the two years since 2005-06, referrals have increased from 815,000 to 1,300,000 (an increase of some 60%) and the value of recoveries has gone up from £180 million to £272 million (an increase of 51%).

Figure 6: Increase in overpayment referral rates and recoveries 2005-06 to 2007-08

Year	Overpayment Referral Volumes	Year on year percentage change	Recoveries (£m)	Year on year percentage change
2007-08	1,300,000	+32.7%	272	16.7%
2006-07	980,000	+20.2%	233	+29.4%
2005-06	815,000	N/A	180	N/A

Source: Departmental data

49 The Department has also undertaken several exercises to assess the value for money of pursuing debt from earlier years. These exercises considered the cost and likelihood of identifying recoverable debts against the recoveries they were expected to yield. The Department concluded that the pursuit of debtors arising from the overpayment of benefits in years prior to 2007-08 was not economic unless such debts were identified in the normal course of future business.

50 Stressing the performance improvements made and the value for money considerations of pursuing older debts, the Department sought and received agreement from the Treasury for a change in accounting policy to not pursue any unidentified unrecovered overpayments from years prior to 2007-08. This agreement is reflected in the Department's revised approach to the recovery of overpayment debt, as set out in note 1 to the Department's resource accounts.

51 The Department is satisfied that it now has robust procedures in place for identifying, referring and pursuing, where appropriate, debt arising from benefit overpayments and has sought assurance from its Risk Assurance Division (Internal Audit) on the adequacy and operation of those processes by year end. Work undertaken by my staff suggests that the overpayment referral processes in place were not fully functional in all Agencies and across all benefit streams for the entire accounting year, but there is sufficient evidence that significant performance improvements were achieved by the year end.

Conclusion on the completeness of benefit overpayment debtors

52 I am satisfied that any potential referrals of overpaid benefit not identified in the normal course of business in 2007-08 are not material to the accounts at 31 March 2008, and I have not therefore qualified my audit opinion on the Department's 2007-08 accounts in respect of this matter. The Department should, however, embed the performance improvements made in debt identification, referral and recovery processes across all Agencies and benefit streams if it is to prevent in future years a reoccurrence of the backlog of unreferred overpayments with the risk that material omitted debtors may recur. In granting approval to not pursue unidentified and unrecovered overpayments from years prior to 2007-08, the Treasury drew attention to the need for the Department to consider the value for money implications of this action. I am currently undertaking a value for money study of the Department's approach to debt management and plan to report in more detail on this matter in 2009.

53 The Department has significantly improved the rates of referral of overpayments for recovery action in recent years, leading to additional funds recovered of some £53 million in 2006-07 and £92 million in 2007-08 over the £180 million recovered in 2005-06.

T J Burr
Comptroller and Auditor General

21 July 2008

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2007-08

		Estimate			Outturn				Restated 2006-07 Outturn
		Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	2007-08 Net Total Outturn compared with Estimate: saving/ (excess)	Net Total
Request for Resources	Note	£000	£000	£000	£000	£000	£000	£000	£000
1: Children	2	556,662	(2,192)	**554,470**	554,996	(2,192)	**552,804**	1,666	**492,282**
2: Working Age	2	40,533,094	(1,851,593)	**38,681,501**	39,716,786	(1,738,157)	**37,978,629**	702,872	**36,927,133**
3: Pensioners	2	16,304,645	(428,960)	**15,875,685**	13,748,193	(426,090)	**13,322,103**	2,553,582	**11,023,646**
4: Disabled	2	16,475,505	(25,411)	**16,450,094**	16,156,367	(25,411)	**16,130,956**	319,138	**15,029,910**
5: Corporate Services	2	1,139,719	(312,833)	**826,886**	1,051,350	(312,682)	**738,668**	88,218	**748,270**
Total Resources		**75,009,625**	**(2,620,989)**	**72,388,636**	**71,227,692**	(2,504,532)	**68,723,160**	**3,665,476**	**64,221,241**
Non-Operating Cost A in A		**–**	**(12,719)**	**(12,719)**	**–**	**(11,505)**	**(11,505)**	**(1,214)**	**(2,553)**

Net Cash Requirement 2007-08

	Note	Estimate	Outturn	2007-08 Net Total Outturn compared with Estimate: saving/ (excess)	Restated 2006-07 Outturn
		£000	£000	£000	£000
Net Cash Requirement	4	**68,467,214**	**66,337,066**	**2,130,148**	**62,854,422**

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 (cash receipts being shown in italics).

		Forecast 2007-08		Outturn 2007-08	
		Income	*Receipts*	Income	*Receipts*
	Note	£000	*£000*	£000	*£000*
Total	5	5,000	*5,000*	18,937	*18,937*

Explanations of variances between Estimate and Outturn are given in the Management Commentary.

The Statement of Parliamentary Supply is not directly comparable to the Operating Cost Statement and the Consolidated Statement of Operating Costs by Departmental Aim and Objectives due to the fact that:

- The Statement of Parliamentary Supply only includes Supply expenditure and the Operating Cost Statement 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 the Statement of Parliamentary Supply but as financing via the General Fund within the Resource Accounts.
- Total Social Fund expenditure is consolidated within the Operating Cost Statement whereas the cash grant element only is included in the Statement of Parliamentary Supply.
- The administration cost expenditure within each RfR in the Operating Cost Statement reflects the full cost of those RfRs, whereas in the Statement of Parliamentary Supply each RfR reflects the direct costs borne by that RfR.
- The request for resources are not directly comparable to objectives. Administration expenditure in the Consolidated Statement of Operating Costs by Departmental Aim and Objectives has been assigned to Objectives based on RfRs. Expenditure against RfR5 has been apportioned to Objectives 1-4 based on the Administration expenditure incurred on that objective. Expenditure on Objective 5 is based on the work undertaken to support PSA targets 9 and 10, which underpin this objective. Programme expenditure in the Consolidated Statement of Operating Costs by Departmental Aim and Objectives has been assigned to Objectives in line with the Departmental Report.

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:	Corporate contracts and support services.

The notes on pages 67 to 134 form part of these accounts.

Operating Cost Statement
for the year ended 31 March 2008

	Note	Staff Costs £000	Other Costs £000	Income £000	2007-08 Sub-total by RfR £000	Restated 2006-07 £000
Administration Costs						
RfR 1 (Children)						
Staff Costs	8	271,751				271,215
Other administration costs	9		294,789			249,307
Operating income	14			(3,339)		(188)
RfR 1 Sub-total					563,201	520,334
RfR 2 (Working Age)						
Staff Costs	8	2,045,067				2,053,356
Other administration costs	9		1,817,600			1,954,482
Operating income	14			(120,616)		(112,969)
RfR 2 Sub-total					3,742,051	3,894,869
RfR 3 (Pensioners)						
Staff Costs	8	374,501				356,445
Other administration costs	9		496,038			510,461
Operating income	14			(11,521)		(6,230)
RfR 3 Sub-total					859,018	860,676
RfR 4 (Disabled)						
Staff Costs	8	153,699				151,975
Other administration costs	9		144,360			154,959
Operating income	14			(187)		(577)
RfR 4 Sub-total					297,872	306,357
RfR 5 (Corporate Services)						
Staff Costs	8	304,003				309,102
Other administration costs	9		238,751			189,543
Operating income	14			(42,539)		(43,860)
RfR 5 Sub-total					500,215	454,785
Net Administration Costs					**5,962,357**	**6,037,021**
Programme Costs						
RfR 2 (Working Age)						
Programme costs	13		35,596,565			34,681,317
Income	14			(841,609)		(880,858)
RfR 2 Sub-total					34,754,956	33,800,459
RfR 3 (Pensioners)						
Programme costs	13		13,075,123			10,602,690
Income	14			(52,201)		(43,897)
RfR 3 Sub-total					13,022,922	10,558,793
RfR 4 (Disabled)						
Programme costs	13		15,873,623			14,772,828
Income	14			(699)		(600)
RfR 4 Sub-total					15,872,924	14,772,228
RfR 5 (Corporate Services)						
Programme costs	13		–			9,426
Income	14			–		–
RfR 5 Sub-total					–	9,426

	Note	Staff Costs	Other Costs	Income	2007-08 Sub-total by RfR	Restated 2006-07
		£000	£000	£000	£000	£000
National Insurance Benefits and Non-Voted Expenditure						
Expenditure	13		65,637,252			61,720,537
Income	14			(3,185)		(3,092)
NIF Sub-total	16b				65,634,067	61,717,445
Net Programme Costs	13				**129,284,869**	**120,858,351**
Totals		3,149,021	133,174,101	(1,075,896)		
Net Operating Cost					**135,247,226**	**126,895,372**

All income and expenditure is derived from continuing operations.

Statement of Recognised Gains and Losses
for the year ended 31 March 2008

	Note	2007-08	2006-07
		£000	£000
Net gain on revaluation of tangible fixed assets		4,016	1,922
Net gain on revaluation of investments	23	18	310
Movement in Government Grant Reserve	31b	(1)	(16)
Increase to provision arising on actuarial valuation of pensions by analogy		(97)	(157)
Pension fund actuarial gains	29	3,112	3,714
Recognised gains and losses for the financial year		**7,048**	**5,773**

The notes on pages 67 to 134 form part of these accounts.

Balance Sheet
as at 31 March 2008

	Note	31 March 2008 £000	31 March 2008 £000	Restated 31 March 2007 £000	Restated 31 March 2007 £000
Fixed Assets					
Tangible assets	21	826,939		937,677	
Intangible assets	22	50,415		52,200	
Investments	23	1,451		1,433	
			878,805		991,310
Debtors falling due after more than one year	25		1,595,879		1,533,357
Current Assets					
Stocks and Work in progress	24	1,346		1,525	
Debtors	25	2,785,523		2,198,286	
Cash with paying agents		35,132		59,958	
Cash at bank and in hand	26	193,294		217,530	
		3,015,295		2,477,299	
Current Liabilities					
Creditors (amounts falling due within one year)	27	(3,843,326)		(3,766,154)	
Net Current Liabilities			(828,031)		(1,288,855)
Total Assets less Current Liabilities			1,646,653		1,235,812
Creditors (amounts falling due after more than one year)	27	(439,669)		(342,208)	
Pension Liability	29	(2,618)		(5,517)	
Provisions for Liabilities and Charges	28	(3,641,578)		(1,101,166)	
			(4,083,865)		(1,448,891)
			(2,437,212)		**(213,079)**
Taxpayers' Equity					
General Fund	30		(2,452,744)		(225,045)
Revaluation Reserve	31a		15,529		11,962
Government Grant Reserve	31b		3		4
			(2,437,212)		**(213,079)**

Leigh Lewis
Principal Accounting Officer

18 July 2008

The notes on pages 67 to 134 form part of these accounts.

Consolidated Cash Flow Statement
for the year ended 31 March 2008

	Note	2007-08 £000	Restated 2006-07 £000
Net cash outflow from operating activities	32a	(132,971,085)	(125,595,471)
Capital expenditure and financial investment	32b	(98,675)	(231,787)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		–	–
Payments of amounts due to the Consolidated Fund		(95,648)	(82,459)
Net financing from the Consolidated Fund	32d	66,261,205	62,990,979
Net financing from the Contingencies Fund	32d	1,312	–
Financing from the National Insurance Fund	32d	66,746,623	63,016,534
Other		–	–
Increase/(Decrease) in cash in the period	32e	**(156,268)**	**97,796**

The notes on pages 67 to 134 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Aim and Objectives
for the year ended 31 March 2008

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

	2007-08				
	Programme			Administration	Total
	Gross	Income	Net	Net	Net
	£000	£000	£000	£000	£000
Objective 1 To ensure the best start for all children and end child poverty by 2020.	2,278,735	(25,928)	2,252,807	614,399	2,867,206
Objective 2 To promote work as the best form of welfare for people of working age, while protecting the position of those in greatest need.	32,403,013	(268,209)	32,134,804	4,059,753	36,194,557
Objective 3 To combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners.	78,582,780	(53,360)	78,529,420	932,872	79,462,292
Objective 4 To improve rights and opportunities for disabled people in a fair and inclusive society.	16,367,838	–	16,367,838	336,182	16,704,020
Objective 5 To ensure customers receive a high quality service, including high levels of accuracy.	–	–	–	19,151	19,151
Net Operating Costs	**129,632,366**	**(347,497)**	**129,284,869**	**5,962,357**	**135,247,226**

The above figures are exclusive of any European Social Fund income and expenditure, as these are outside of the Department's control and, therefore, do not contribute to the overall Objectives.

The notes on pages 67 to 134 form part of these accounts.

	Programme		Restated 2006-07	Administration	Total
	Gross	Income	Net	Net	Net
	£000	£000	£000	£000	£000
Objective 1 To ensure the best start for all children and end child poverty by 2020.	2,213,237	(23,432)	2,189,805	562,412	2,752,217
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.	31,459,550	(216,990)	31,242,560	4,209,864	35,452,424
Objective 3 To combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners.	71,903,557	(43,897)	71,859,660	918,444	72,778,104
Objective 4 To improve rights and opportunities for disabled people in a fair and inclusive society.	15,566,926	(600)	15,566,326	331,132	15,897,458
Objective 5 To ensure customers receive a high quality service, including high levels of accuracy.	–	–	–	15,169	15,169
Net Operating Costs	**121,143,270**	**(284,919)**	**120,858,351**	**6,037,021**	**126,895,372**

See Note 33 for further information on this statement.

The notes on pages 67 to 134 form part of these accounts.

Notes to the Accounts

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2007-08 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the Public Sector.

In addition to the primary statements prepared under UK GAAP, the *FReM* also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn compared to Estimate in terms of the net resource requirement and the net cash requirement. The Consolidated Statement of Operating Costs by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure across the objectives agreed with Ministers.

In accordance with the *FReM*, the Department has not prepared separate accounting statements for the core and consolidated elements of the Department as the results of each do not give a significantly different view.

Where the *FReM* 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.

1.2 Basis of Consolidation

These accounts comprise a consolidation of the non-agency parts of the Department (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 Funds (ILF), the Pensions Regulator (TPR), the Pension Advisory Service (TPAS) and the Pension Protection Fund (PPF). 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 and HSC/E produces its own annual report and accounts. Similarly, separate accounts are also produced for the Social Fund, National Insurance Fund, TPR, and PPF. A separate Client Funds account is prepared and published alongside the Child Support Agency's Annual Report and Accounts.

Social Fund expenditure is consolidated within the Accounts and the cash grant to the Social Fund is included in the Summary of Resource Outturn.

Contribution receipts of the National Insurance Fund are excluded from the consolidation. However, certain elements of the National Insurance Fund are included. These are contributory benefits funded from the National Insurance Fund and costs to the Department of administering the Fund, together with amounts repaid by the Department to the Fund in respect of Statutory Sick Pay (SSP) and Statutory Maternity Pay (SMP) payments deducted by employers from National Insurance Contributions. The contributory benefits are excluded from the Summary of Resource Outturn. Recoveries from the NIF in respect of administration costs are disclosed as Appropriations in Aid (A in A) within the Summary. 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. Where maintenance is collected in respect of parents with care who are receiving gross amounts of Income Support, the receipts are accounted for as A-in-A within the DWP Resource Account. The income is recognised when the Client Funds account makes the payment to the Department.

The 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 Benefit Overpayment Debt

The Department seeks to recover all overpayments where it is cost effective to do so unless it will cause hardship to the customer.

Overpayments are referred to Debt Management for collection using debt recovery procedures appropriate to the debt. The current sums and guidelines on overpayment referral and debt recovery are set out in the DWP's procedures for dealing with Overpayments and Debt Recoveries.

Debts are recognised in the accounts when a decision has been taken that an overpayment is identified, and there is considered to be a reasonable prospect of recovery. In such circumstances a debt notification letter is issued which sets out the legal decision that the debt is recoverable. The Department regards this letter as sufficient and appropriate evidence to support the existence and valuation of a debt. Benefit debt recognised in the balance sheet is valued at the difference between what the customer has been paid and what they should have been paid.

The actual value of benefit payments made is accounted for as Programme expenditure in the year in which they are made. The debt recognised is accounted for as a reduction to Programme expenditure in the year in which it is recognised.

Debt is assessed at the end of each accounting period and reduced to its estimated recoverable amount through making a provision based on forecast cash and benefit deduction recoveries. In addition, the Department includes a provision in respect of an element of benefit debt that could be subject to challenge and consequently written-off.

Certain categories of identified overpayment are not recognised as debt, including:

- Those due to official error where there is no statutory right of recovery, the debtor declines to repay voluntarily and it is not appropriate or cost effective to take civil proceedings;
- Cases satisfying Secretary of State waiver policies; and/or
- The customer is deceased and there is insufficient estate to recover the debt.

Based on exercises conducted during the year the Department has determined not to embark on specific exercises to identify and recover potential overpayments from periods prior to 2007-08 as this does not represent value for money. Current business processes however, will identify some debts arising in this period.

Debt write-off policy has been agreed with HM Treasury. To ensure it is applied consistently, detailed guidance is given in the Overpayment Recovery Guide and Managing Public Money. Secretary of State waivers are referred to a central unit for a decision. In addition to the day to day supervisory controls, the Department undertakes periodic exercises to review the quality and consistency of write-off decision making. Any performance issues resulting from this assurance process are addressed through revised guidance and training.

1.4 Estimation Techniques

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

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 contributory and non-contributory benefits the bad debt provision is calculated as detailed in Note 1.3 above.

(ii) In respect of the Financial Assistance Scheme, an estimate is made of 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. The assumptions underlying the model are regularly reviewed against operational data.

(iii) Departmental Estimation of Statutory Sick Pay and Statutory Maternity Pay (SSP/SMP)

The figures given for these two benefits are amounts paid to the National Insurance Fund, in respect of expected recoveries of Statutory Sick Pay and Statutory Maternity Pay by employers. Unlike other benefits, where payment is a direct transaction between DWP and a claimant, SSP and SMP are recovered by the employer. The employer is able to make this recovery after the end of the financial year to which the SSP or SMP payment related; thus DWP must make an estimate of the total recovery for the past financial year, as the actual recovery is not known at this time.

The estimates are created using information on past recoveries. This is taken from systems administered by HM Revenue & Customs.

The most recent year for which full data is available is 2004-05. The estimates are generated by projecting the total from that year forward, to arrive at a value for 2007-08. In doing so, allowances are made for the changes which will have occurred since 2004-05. These include both demographic factors (including increases in births since 2004-05) and also economic factors (such as inflation and its effect on the benefits' rates).

(iv) Calculation of Fair Value

Other Social Fund Loans are made up of Budget and Crisis Loans which have been included at fair value, calculated by the discounting of future cash flows using the National Loans Fund rate of 5%.

1.5 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.

During this accounting period, the Department entered into a new contract with a third party (Inchcape) for the provision of fleet management services. This covers running the fleet, maintenance of the fleet and lease of the vehicles. In August 2007 on signing of the contract the Department sold all its vehicles to the new service provider and leased vehicles from them. These vehicles do not belong to the Department and hence are not declared as fixed assets on the Balance Sheet.

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 *FReM* 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 and assets under construction are not revalued but use depreciated historic cost as a proxy for current value.

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.

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.

1.6 Land and Buildings

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 those leasehold properties that qualify as finance leases, are included in the Balance Sheet.

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).

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).

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 21). This is appropriate because the expenditure provides a long-term continuing benefit for the Department.

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 and residual interests in off-balance sheet PFI contract assets are not depreciated until the asset is brought into use or reverts to HSE respectively. Tangible fixed assets are depreciated over the following estimated useful lives:

Freehold Buildings	50 years or remaining life assessed by the valuers
Leasehold Buildings	period remaining on lease or to next rent review
PFI Leasehold Buildings	60 years designed life
Leasehold Improvements	10 years (or period remaining on lease if less)
Information Technology	3 to 7 years
Software Development	5 years (or the life of the software if less)
Plant and Machinery	5 to 10 years
Furniture and Fittings	7 to 15 years (except HSL PFI contract which is 30 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 Intangible Fixed Assets

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. Should the Department purchase licences in advance they are only subject to amortisation once they are brought into use.

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, on a straight-line basis, over the shorter of the licence period or 5 years.

1.9 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 DWP Head Office and Corporate and Shared Services 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 Department's 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 2008 (see Note 23).

1.10 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, computer spares and similar consumable materials for its own use. Due to the nature of these items the Department does not consider it appropriate to reflect their value in the Balance Sheet. Accordingly, the Department charges all expenditure on consumable items to the Operating Cost Statement.

1.11 Research and Development

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

1.12 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 *FReM* is treated as operating income. Operating income is stated net of VAT (See Note 14).

1.13 Administration and Programme Expenditure

The Operating Cost Statement is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition set out in the *FReM*.

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 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. Grants payable are recorded as expenditure during the period that the underlying event or activity giving entitlement to the grant occurs.

Programme expenditure comprises statutory payments which includes contributory benefit expenditure funded from the National Insurance Fund and expenditure borne by the Social Fund, in addition to the programme expenditure which is within the Supply Process.

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

1.14 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.

1.15 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% – 2006-07 3.5%) on the average carrying amount of all assets less liabilities, except for:

(a) intra departmental balances;

(b) cash balances with the Office of HM Paymaster General (OPG), where the charge is nil; and

(c) 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 11) and programme overheads (see Note 17) in accordance with the relative proportions of net assets.

1.16 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 8. The defined benefit schemes are unfunded and are non-contributory except in respect of dependent's benefits. The Department recognises the expected cost of these elements 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. 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 previous Chairmen of the Health and Safety Commission were not members of the PCSPS but arrangements exist whereby HSE make pension payments analogous to those that would have been made if they had been members 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. For the purposes of Financial Reporting Standard 17, the Department commissioned a qualified independent actuary to carry out an assessment of the LGPS as at 31 March 2008. The results of the actuarial assessment are shown in Note 29.

1.17 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 2.2% (2006-07 2.2%) 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).

1.18 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.

1.19 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 2.2% – 2006-07 2.2%).

1.20 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money.

These comprise:

- items over £250,000 (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 £250,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the *FReM* 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 by FRS 12 are stated at the amounts reported to Parliament.

1.21 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.

1.22 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 *FReM*.

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 a property 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.

1.23 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.

1.24 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.

1.25 Housing Benefit and Council Tax Benefit Subsidy Overpayments

Debt arises when the subsidy paid to a local authority by the Department is in excess of entitlement and results in an overpayment. Debt is valued in the balance sheet at the amount of overpayment recoverable by the Department.

Following the certification of final claims submitted by local authorities, the external auditor reports any subsidy claimed by an authority that does not comply with the subsidy regulations. The Secretary of State, in the exercise of his discretion under the provisions of S140C(3) of the Social Security Administration Act 1992, will decide whether and, if so, how much of the overpayment should be recovered.

Following the Secretary of State's decision, the value of the recoverable overpayment is communicated to the local authority by an overpayment decision letter. Local authorities have no right of appeal against a decision taken by the Secretary of State to recover overpaid subsidy under S140C(3) of the 1992 Act. The decision can only be challenged by judicial review.

The Department regards the overpayment decision letter as sufficient and appropriate evidence of the existence and valuation of a debt and the point at which it is recognised.

2. Analysis of Net Resource Outturn by Function

		2007-08								Restated 2006-07
		Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn compared with Estimate Saving/ (Excess)	Prior-Year Outturn
		£000	£000	£000	£000	£000	£000	£000	£000	£000
RfR 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	547,161	7,835	–	554,996	(2,192)	552,804	554,470	1,666	492,282
Spending in Annually Managed Expenditure										
Central Government spending										
B	Impairments	–	–	–	–	–	–	–	–	–
		547,161	**7,835**	**–**	**554,996**	**(2,192)**	**552,804**	**554,470**	**1,666**	**492,282**
RfR 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 (DEL)										
Central Government spending										
A	Administration	3,166,272	61,294	74,699	3,302,265	(522,210)	2,780,055	2,874,497	94,442	2,867,738
B	Employment programmes	–	867,768	105,889	973,657	(1,813)	971,844	776,383	(195,461)	793,679
C	Health and Safety Executive	215,598	58,429	–	274,027	(59,294)	214,733	228,692	13,959	233,926
D	Health and Safety Laboratory	31,013	4,729	–	35,742	(35,839)	(97)	–	97	–
E	Capital Grants	–	–	4,210	4,210	–	4,210	5,927	1,717	5,102
F	The Rent Service Executive Agency	34,255	4,769	–	39,024	(1)	39,023	37,293	(1,730)	35,779
G	European Social Fund and European Globalisation Fund	–	–	19,674	19,674	(19,674)	–	–	–	–
H	European Social Fund payments in advance of receipts	–	4,184	506,268	510,452	(491,530)	18,922	35,249	16,327	38,420

		2007-08								Restated 2006-07
		Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn compared with Estimate Saving/ (Excess)	Prior-Year Outturn
		£000	£000	£000	£000	£000	£000	£000	£000	£000
Support for Local Authorities										
I	Employment Programmes	–	–	66,204	66,204	–	66,204	37,047	(29,157)	63,824
J	Housing benefit and council tax benefit administration grants	–	–	648,269	648,269	–	648,269	680,200	31,931	609,675
K	Capital grants to Local Authorities	–	–	–	–	–	–	–	–	5
L	European Social Fund	–	–	1,982	1,982	(1,982)	–	–	–	–
M	European Social Fund payments in advance of receipts	–	–	37,010	37,010	(37,010)	–	–	–	–
Spending in Annually Managed Expenditure (AME)										
Central Government spending										
N	Severe Disablement Allowance	–	346	897,222	897,568	(87)	897,481	904,573	7,092	904,037
O	Industrial injury benefits	–	293	845,187	845,480	(47,803)	797,677	807,145	9,468	792,934
P	Income support (under 60 years of age)	–	3,361	8,832,750	8,836,111	(127,040)	8,709,071	8,785,000	75,929	8,757,161
Q	Jobseeker's allowance (income based)	–	709	1,791,455	1,792,164	(1,799)	1,790,365	2,051,295	260,930	1,962,917
R	Jobseeker's allowance (contribution based)	–	–	392,075	392,075	(392,075)	–	–	–	–
S	Job Grant	–	–	47,197	47,197	–	47,197	47,936	739	40,278
T	Employment Allowances	–	–	109,973	109,973	–	109,973	107,297	(2,676)	86,416
U	Housing and Council tax benefit capital charge	–	(6,787)	–	(6,787)	–	(6,787)	3,277	10,064	(12,498)
Support for Local Authorities										
V	Housing benefit and council tax benefit subsidies	–	–	13,994,471	13,994,471	–	13,994,471	14,143,852	149,381	13,108,544
W	Rent rebates	–	–	5,288,657	5,288,657	–	5,288,657	5,419,560	130,903	5,236,939
X	Discretionary housing payments	–	–	18,555	18,555	–	18,555	20,000	1,445	18,108
Non-Budget										
Y	Statutory benefits (SSP and SMP)	–	–	1,584,829	1,584,829	–	1,584,829	1,712,065	127,236	1,381,235
Z	Working Age (Grants in Aid)	–	–	3,807	3,807	–	3,807	4,213	406	2,659
Spending in Annually Managed Expenditure (AME)										
Central Government Spending										
AA	Impairments	–	170	–	170	–	170	–	(170)	–
	Challenge funding and similar administrative measures – Local Authorities	–	–	–	–	–	–	–	–	255
		3,447,138	**999,265**	**35,270,383**	**39,716,786**	**(1,738,157)**	**37,978,629**	**38,681,501**	**702,872**	**36,927,133**

		Admin	Other Current	Grants	Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn compared with Estimate Saving/ (Excess)	Restated 2006-07 Prior-Year Outturn
		2007-08								
		£000	£000	£000	£000	£000	£000	£000	£000	£000
RfR 3: Combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners										
Spending in Departmental Expenditure Limits (DEL)										
Central Government spending										
A	Administration	656,353	57,858	19,602	733,813	(426,090)	307,723	287,717	(20,006)	287,732
Spending in Annually Managed Expenditure (AME)										
Central Government spending										
B	Pension benefits	–	(63,123)	2,594,341	2,531,218	–	2,531,218	5,134,036	2,602,818	776,801
C	Income support for the elderly and Pension Credit	–	2,876	7,448,888	7,451,764	–	7,451,764	7,403,054	(48,710)	6,958,418
D	TV licences for the over 75s	–	–	509,737	509,737	–	509,737	513,078	3,341	487,842
Non-Budget										
E	Payments to the Social Fund	–	–	2,482,825	2,482,825	–	2,482,825	2,496,283	13,458	2,481,236
F	Pensions Grants in Aid	–	–	38,836	38,836	–	38,836	41,517	2,681	31,617
Spending in Annually Managed Expenditure (AME)										
Central Government Spending										
G	Impairments	–	–	–	–	–	–	–	–	–
		656,353	**(2,389)**	**13,094,229**	**13,748,193**	**(426,090)**	**13,322,103**	**15,875,685**	**2,553,582**	**11,023,646**
RfR 4: Improve the rights and opportunities for disabled people in a fair and inclusive society										
Spending in Departmental Expenditure Limits (DEL)										
Central Government spending										
A	Administration	244,750	7,086	–	251,836	(153)	251,683	254,939	3,256	257,676
B	Motability administration	–	–	2,960	2,960	(162)	2,798	2,800	2	2,808
Spending in Annually Managed Expenditure (AME)										
Central Government spending										
C	Attendance Allowance	–	1,715	4,443,883	4,445,598	(2,180)	4,443,418	4,605,000	161,582	4,151,683
D	Disability Living Allowance	–	–	9,883,557	9,883,557	(22,439)	9,861,118	9,977,000	115,882	9,160,460
E	Carer's Allowance	–	–	1,269,175	1,269,175	–	1,269,175	1,296,787	27,612	1,191,943
F	Vaccine Damage Payments	–	–	200	200	–	200	500	300	389
G	Grants to independent bodies	–	–	14,963	14,963	(477)	14,486	12,029	(2,457)	264,951
Non-Budget										
H	Disability (Grant in Aid)	–	–	288,078	288,078	–	288,078	301,039	12,961	–
Spending in Annually Managed Expenditure (AME)										
Central Government Spending										
I	Impairments	–	–	–	–	–	–	–	–	–
		244,750	**8,801**	**15,902,816**	**16,156,367**	**(25,411)**	**16,130,956**	**16,450,094**	**319,138**	**15,029,910**

	Admin	Other Current	Grants	2007-08 Gross Resource Expenditure	A in A	Net Total	Estimate	Net Total Outturn compared with Estimate Saving/ (Excess)	Restated 2006-07 Prior-Year Outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
RfR 5: Corporate contracts and support services									
Spending in Departmental Expenditure Limits (DEL)									
Central Government spending									
A Administration	951,595	83,474	16,281	1,051,350	(312,682)	738,668	826,886	88,218	748,270
Spending in Annually Managed Expenditure (AME)									
Central Government Spending									
B Impairments	–	–	–	–	–	–	–	–	–
	951,595	**83,474**	**16,281**	**1,051,350**	**(312,682)**	**738,668**	**826,886**	**88,218**	**748,270**
Resource Outturn	**5,846,997**	**1,096,986**	**64,283,709**	**71,227,692**	**(2,504,532)**	**68,723,160**	**72,388,636**	**3,665,476**	**64,221,241**

Explanation of the variation between Estimate and Outturn:

Detailed explanations of the variances are given in the Management Commentary.

3. Reconciliation of outturn to net operating cost and against Administration Budget

(a) Reconciliation of net resource outturn to net operating cost

	Note	Outturn	Supply Estimate	2007-08 Outturn compared with Estimate Saving/ (Excess)	Restated 2006-07 Outturn
		£000	£000	£000	£000
Net Resource Outturn	2	68,723,160	72,388,636	3,665,476	64,221,241
Non-supply Expenditure	16b	65,634,067	66,314,402	680,335	61,717,445
Non A in A operating income		1,096,322	1,096,321	(1)	1,111,733
Excess of Social Fund Operating cost expenditure over Social Fund grant and excess SMP/SSP		(190,882)	(100,046)	90,836	(137,804)
Income payable to the Consolidated Fund (excess A in A)		(3,696)	–	3,696	(1,931)
Income payable to the Consolidated Fund (non A in A)		(12,561)	–	12,561	(15,637)
Other non-voted expenditure		816	–	(816)	325
Net operating cost		**135,247,226**	**139,699,313**	**4,452,087**	**126,895,372**

Non A in A operating income is amounts received in respect of National Insurance Fund administration costs.

(b) Outturn against final Administration Budget

	Budget	2007-08 Outturn	Restated 2006-07 Outturn
	£000	£000	£000
Gross Administration Budget	5,966,460	5,846,997	6,009,568
Income allowable against the Administration Budget	(151,094)	(149,121)	(132,964)
Non-Voted expenditure within the Administration Budget	910	–	249
Net outturn against final Administration Budget	**5,816,276**	**5,697,876**	**5,876,853**

4. Reconciliation of resources to cash requirement

		2007-08			Restated 2006-07
	Note	Estimate	Outturn	Net total outturn compared with Estimate: saving/ (excess)	Prior Year Outturn
		£000	£000	£000	£000
Resource Outturn	2	72,388,636	68,723,160	3,665,476	64,221,241
Capital:					
Acquisition of fixed assets	32c	102,550	74,675	27,875	197,772
Investments		–	–	–	–
Non-Operating Cost A in A					
Proceeds of fixed asset disposals	7	(12,719)	(11,514)	(1,205)	(2,553)
Accruals adjustments					
Non-cash items	10b	(5,412,085)	(3,016,417)	(2,395,668)	(1,106,061)
Changes in working capital other than cash		1,329,945	505,923	824,022	(510,615)
Changes in creditors falling due after more than one year		–	–	–	–
Use of provision		70,887	61,239	9,648	54,638
Cash receipts surrenderable to the Consolidated Fund		–	–	–	–
Net Cash Requirement		**68,467,214**	**66,337,066**	**2,130,148**	**62,854,422**

Explanation of the variation between Estimate and Outturn:

Detailed explanations of the variances are given in the Management Commentary.

5. 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 (cash receipts being shown in italics):

	Forecast 2007-08		Outturn 2007-08	
	Income	***Receipts***	**Income**	***Receipts***
	£000	***£000***	**£000**	***£000***
Operating income and receipts – excess A in A	–	–	3,696	*3,696*
Other operating income and receipts not classified as A in A	–	–	12,561	*12,561*
	–	–	16,257	*16,257*
Non-operating income and receipts – excess A in A	–	–	–	–
Other non-operating income and receipts not classified as A in A	–	–	2,680	*2,680*
Other amounts collectable on behalf of the Consolidated Fund	5,000	*5,000*	–	–
Excess cash surrenderable to the Consolidated Fund	–	–	–	–
Total income payable to the Consolidated Fund	**5,000**	***5,000***	**18,937**	***18,937***

6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

			Restated
		2007-08	**2006-07**
	Note	**£000**	**£000**
Operating income	14	1,075,896	1,092,271
Adjustments for transactions between RfRs		–	–
Gross income		1,075,896	1,092,271
NIF & other Admin adjustments		1,093,137	1,108,132
Netted off gross expenditure		351,756	474,868
Income authorised to be appropriated-in-aid		(2,504,532)	(2,657,703)
Operating income payable to the Consolidated Fund	5	**16,257**	**17,568**

7. Non-Operating A in A income

	2007-08		2006-07	
	Income	***Receipts***	**Income**	***Receipts***
	£000	***£000***	**£000**	***£000***
Proceeds from disposal of fixed assets*	11,514	*11,514*	2,553	*2,553*

In 2007-08 the Department received £11.1 million in respect of the sale of vehicles and £0.4 million from the sale of IT equipment. In 2006-07 the Department received £2.2 million in respect of the sale of IT equipment and £0.3 million from the sale of vehicles.

*Proceeds from disposal of fixed assets comprise voted proceeds of £11,505k and non voted proceeds of £9k.

8. Staff Numbers and Related Costs

(a) Staff costs

Staff costs comprise:

	2007-08					Restated 2006-07
	Permanently employed staff	Others	Ministers	Special Advisers	Total	Total
	£000	£000	£000	£000	£000	£000
Wages and salaries	2,386,750	59,181	260	36	2,446,227	2,498,224
Employer's National Insurance	160,638	1,129	17	4	161,788	168,520
Superannuation and Pension costs	539,581	679	–	–	540,260	474,882
	3,086,969	**60,989**	**277**	**40**	**3,148,275**	**3,141,626**
Non-cash Staff costs	746	–	–	–	746	467
	3,087,715	**60,989**	**277**	**40**	**3,149,021**	**3,142,093**
Less recoveries in respect of outward secondments	(8,399)	–	–	–	(8,399)	(7,027)
Total Net Costs	**3,079,316**	**60,989**	**277**	**40**	**3,140,622**	**3,135,066**

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. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2007-08, employers' contributions of £421.9 million were payable to the PCSPS (2006-07 £434.5 million) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2006-07 were between 17.1% and 25.5%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners. In addition, an amount of £3.3 million (2006-07 £2.7 million) was payable in respect of the Local Government Pension Scheme (LGPS) contributions for staff employed by The Rent Service.

Outstanding contributions amounting to £39.2 million (2006-07 £39.1 million) were payable to the Civil Superannuation Vote at 31 March 2008 and are included in creditors (See Note 27).

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £692,675 (2006-07 £606,477) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% (2006-07 3% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £26,108 (2006-07 £34,072), 0.8% 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 £68,390. Contributions prepaid at that date were £Nil.

In 2007-08 123 persons (2006-07 216 persons) retired on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £203,007 (2006-07 £360,783). 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.

			2007-08 Number			Restated 2006-07 Number
Objective	**Permanent staff**	**Others**	**Ministers**	**Special Advisers**	**Total**	**Total**
1 (Children)	11,129.0	145.0	–	–	11,274.0	**12,263.0**
2 (Work)	76,445.0	1,378.0	4.0	2.0	77,829.0	**81,294.0**
3 (Pensions)	13,251.0	358.0	1.0	–	13,610.0	**15,282.0**
4 (Disabled)	6,265.0	10.0	1.0	–	6,276.0	**6,806.0**
5 (Payment Accuracy)	473.0	–	–	–	473.0	**588.0**
Total	**107,563.0**	**1,891.0**	**6.0**	**2.0**	**109,462.0**	**116,233.0**

As at 31 March 2008, 105,894.0 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 ensure customers receive a high quality service, including high levels of accuracy.

9. Other Administration Costs

	Note		2007-08		Restated 2006-07
			£000		£000
Goods and Services	9a		1,070,301		937,150
Accommodation costs			222,638		270,578
Rentals under operating leases:					
Hire of plant and machinery		3,140		4,304	
Other operating leases		14,336		11,700	
			17,476		16,004
Interest charges			342		23
PFI service charges:					
Off-balance sheet contracts		507,764		533,238	
Service element of on-balance sheet contracts		3,303		3,169	
			511,067		536,407
Audit fee for HSE	9b		98		94
Compensation payments to customers			9,361		12,072
Non-cash items	10		382,081		396,839
Other	9c		778,174		889,585
			2,991,538		**3,058,752**

a. Goods and Services expenditure of £1.1 billion (2006-07 £0.9 billion) includes the cost of services provided by Post Office Ltd and Alliance and Leicester Commercial Bank. This consists of encashment costs of £31.9 million (2006-07 £31.9 million) and Post Office Card Account costs amounting to £147.7 million (2006-07 £151.9 million). Other elements included are postage, printing and stationery, minor capital items, medical evidence, external consultancy costs, utilities and staff training.

b. There were no fees charged in respect of non-audit work during 2007-08 and 2006-07.

c. Other costs of £0.8 billion (2006-07 £0.9 billion) mainly relate to I.T. services and maintenance payments.

10. Other Administration Costs: Non-cash items

(a)

	Note	2007-08	Restated 2006-07
		£000	£000
Notional costs	11	31,548	44,965
Depreciation of fixed assets	21c/22c	149,724	164,561
(Profit)/Loss on disposal of fixed assets	21c	17,524	11,125
Impairment of fixed assets	21b/22b	3,348	24,499
Amortisation of prepayments		113,460	97,392
Provisions:			
Movement in year		62,891	45,233
HSE Chairmen's Pension		–	–
Unwinding of discount		1,205	1,309
Other		2,381	7,755
		382,081	**396,839**

(b) The non-cash items included in the Reconciliation of resources to cash requirement in Note 4 comprise:

	Note	2007-08 £000	2007-08 £000	Restated 2006-07 £000	Restated 2006-07 £000
Administration non-cash transactions	10a		382,081		396,839
Staff non-cash transactions	8a		746		467
Programme non-cash transactions	17	2,630,031		695,372	
Less: Social Fund capital charge	20	(19,343)		(16,338)	
NIF capital charge	16b	22,903		29,737	
			2,633,591		708,771
Non-cash income:					
Government Grant Reserve	31b		(1)		(16)
			3,016,417		**1,106,061**

11. Notional administration costs

Certain services are provided and received by the Department without the transfer of cash. An amount of £31.5 million (2006-07 Restated £45.0 million) has been included in the net cost of operations to reflect these costs and is comprised as follows:

	Note	2007-08 £000	Restated 2006-07 £000
Cost of capital charge		29,151	42,652
Auditors remuneration and expenses	11a	2,397	2,313
Other Government Departments	30	–	–
		31,548	**44,965**

a. The audit fee represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. In 2007-08, the National Audit Office certified HSE costs relating to an EU grant claim. An audit fee of £1,400 was charged to the head of the consortium making the claim, with no direct cost to HSE. There were no fees in respect of non-audit work during 2006-07. £394,000 (2006-07 £320,000) 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.

12. Non-cash items

	Note	2007-08 £000	Restated 2006-07 £000
Administration Costs	10a	382,081	396,839
Staff non-cash costs	8a	746	467
Programme Costs	17	2,630,031	695,372
Income: Government Grant Reserve	31b	(1)	(16)
		3,012,857	**1,092,662**

13. Net Programme Costs

	Note	2007-08 £000	Restated 2006-07 £000
Current grants and other current expenditure	13a	61,132,834	58,477,073
Research and Development		11,921	15,522
Programme overheads	17	2,869,469	861,500
Non-Supply expenditure: contributory benefits	16a	65,618,142	61,765,723
Agency payments on behalf of EU to third parties	13b	550,197	666,980
Gross programme spend		**130,182,563**	**121,786,798**
Other programme income		(185,795)	(168,895)
EU income		(711,899)	(759,552)
Net programme costs		**129,284,869**	**120,858,351**

a. Current grants and other current expenditure and contributory benefits expenditure is the amount of expenditure incurred in year (net of overpayments) and excludes programme overheads. The expenditure analysed in Note 2 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.

14. Income

	RfR1	RfR2	RfR3	RfR4	RfR5	2007-08 Total	Restated 2006-07 Total
	£000	£000	£000	£000	£000	£000	£000
Administration							
Fees and charges to other government departments	3,121	4,062	8,111	27	15,849	31,170	63,101
Income from mortgage lenders	–	513	455	–	289	1,257	1,415
Amortisation of Government Grants	–	–	–	–	1	1	16
Income from outside bodies	200	9,949	1,166	32	686	12,033	11,675
Income from accommodation	17	1	564	–	14,097	14,679	14,832
Law costs from defendants	1	16	–	–	1,971	1,988	1,900
International labour organisation	–	7,250	–	–	–	7,250	–
Single International Programme	–	34,747	–	–	–	34,747	–
European Union division	–	3,677	–	–	–	3,677	–
Pension levy income	–	–	–	–	–	–	–
Secondments	–	6,072	1,225	128	214	7,639	7,027
HSE Administrative income	–	54,064	–	–	–	54,064	53,811
Other miscellaneous income	–	265	–	–	9,432	9,697	10,047
						178,202	**163,824**
Programme							
Benefit income							
– New Deal	–	1,266	–	–	–	1,266	1,895
– Help for unemployed people	–	973	–	–	–	973	563
– Income Support	–	112,729	–	–	–	112,729	101,878
– Jobseeker's Allowance	–	1,522	–	–	–	1,522	1,381
– Motability receipts	–	–	–	699	–	699	600
Pension levy receipts	–	–	52,201	–	–	52,201	43,897
Other programme income	–	4,823	–	–	–	4,823	5,065
ESF income	–	158,305	–	–	–	158,305	117,333
EU income where DWP acts as agent for payments to third parties	–	550,197	–	–	–	550,197	643,528
Exchange rate gains	–	1,551	–	–	–	1,551	–
HSE Programme income	–	10,243	–	–	–	10,243	9,215
						894,509	**925,355**
NIF income						**3,185**	**3,092**
						1,075,896	**1,092,271**

HSE administrative income includes licensing and safety of the nuclear industry, control of major accident hazards and offshore safety.

Other miscellaneous income and other programme income mainly comprises CFER's Income repayable to the Consolidated Fund in respect of reduced rental charges for the Newcastle Estate of £5.4million.

The following analysis of income from services provided to external and public sector customers is provided for fees and charges purposes, not for SSAP25 purposes (with comparatives).

	Income	2007-08 Full Cost	Surplus
	£000	£000	£000
Income from External Customers	410,964	403,839	7,125
Income from Other Government Departments	664,932	658,527	6,405
	1,075,896	**1,062,366**	**13,530**

	Income	2006-07 Restated Full Cost	Surplus
	£000	£000	£000
Income from External Customers	366,740	358,963	7,777
Income from Other Government Departments	725,531	725,356	175
	1,092,271	**1,084,319**	**7,952**

15. Analysis of Net Operating Cost by Spending Body

	2007-08 Outturn	Restated 2006-07 Outturn
	£000	£000
DWP Head Office and Corporate and Shared Services	129,983,906	121,470,720
Child Support Agency	563,201	520,334
Jobcentre Plus	3,363,045	3,541,147
The Pension Service	785,396	787,420
Health and Safety Commission and Executive	214,721	233,622
The Rent Service	39,085	35,772
Disability and Carers Service	297,872	306,357
Net Operating Cost	**135,247,226**	**126,895,372**

16. Non-Supply Expenditure

(a) Contributory Benefits

	2007-08	Restated 2006-07
	£000	£000
Pensions Benefit		
Retirement Benefit		
Basic element	46,705,890	43,748,292
Earnings-related component	10,815,273	9,866,356
Christmas Bonus	127,261	125,848
Widows' Benefit		
Basic element	449,175	491,536
Earnings-related component	107,222	130,273
Bereavement Benefits	172,108	168,683
Unemployment Benefits		
Jobseeker's Allowance – Contribution Based	422,487	477,146
Unemployment Benefit	1	(3)
Sickness Benefit	(173)	(148)
Incapacity Benefit		
Short-term and Long-term	6,318,213	6,287,594
Earnings-related component	247,879	289,669
Invalidity Benefit	6,238	5,098
Family Benefits		
Maternity Allowance	246,568	175,379
	65,618,142	**61,765,723**

(b) Total Non-Supply expenditure

	Note	2007-08	2006-07
		£000	£000
Contributory Benefits	16a	65,618,142	61,765,723
NIF income		(3,185)	(3,092)
NIF write-offs and movement on bad debt provision		42,591	(15,637)
NIF Movement on CRU Provision		(578)	188
NIF capital charge		(22,903)	(29,737)
	3a	**65,634,067**	**61,717,445**

17. Programme Overheads

	Note	2007-08 £000	2007-08 £000	Restated 2006-07 £000	Restated 2006-07 £000
Programme balances written off	19		239,438		166,128
Non-Cash Items:					
Movement in provision for doubtful debt	18	156,195		(6,200)	
Movement in other provisions		2,486,283		711,418	
Unwinding of discount	28	47,414		8,343	
Notional Costs:					
Cost of Capital charge	20	(59,861)		(18,189)	
	10b		2,630,031		695,372
			2,869,469		**861,500**

18. Provision for doubtful debt: Programme

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

	2007-08 £000	2006-07 £000
Contributory Benefits	1,478	(49,205)
Non-Contributory Benefits	51,531	42,763
Social Fund Payments	103,186	242
European Social Fund	–	–
	156,195	**(6,200)**

19. Programme balances written off

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

	2007-08 £000	2006-07 £000
Contributory Benefits		
Pensions Benefits	21,066	26,800
Incapacity Benefit	18,743	6,384
Other	1,304	384
Non-Contributory Benefits		
Disability Benefits	33,503	21,674
Income Support (including Pension Credit)	118,619	58,927
Family Benefits	30	4
Other	10,620	4,131
Social Fund Payments		
Funeral Payments	34,085	46,147
Other	1,468	1,677
	239,438	**166,128**

Programme balances written off significantly increased following the migration of debt onto the Debt Manager system which took place between July 2005 and February 2006. This migration created a back log of debt referrals which have been cleared in 2006-07 and 2007-08.

To support this initiative, the Department temporarily reduced the period after which Direct Payment After Death debts could be recovered from 6 months to 3 months. In addition, small overpayments valued at £65 or less, which were formerly disclosed as losses within the losses statement, are now subject to formal write off action and disclosed above.

20. Cost of Capital: Programme

The capital charge on programme assets and liabilities consists of:

	Note	2007-08 £000	Restated 2006-07 £000
Cost of Capital charged on:			
Cash with Paying Agents		1,154	991
Social Fund Payments		19,343	16,338
NIF	16b	(22,903)	(29,737)
Other Programme net liabilities (excluding amounts due to HM Treasury and Paymaster balances)		(57,455)	(5,781)
		(59,861)	**(18,189)**

The capital charge on programme net assets has been apportioned over the Requests for Resources on the basis of programme expenditure levels, taking account of whether the funding of those benefits is from voted expenditure, National Insurance or Social Funds.

21. Tangible Fixed Assets

	Note	Land and Buildings	Leasehold Improvements	Information Technology	Plant and Machinery*	Furniture and Fittings	Motor Vehicles	Payments on Account and Assets Under Construction	Internally Developed Software	Total
		£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2007		64,522	729,028	187,779	24,815	26,508	33,153	141,930	171,417	1,379,152
Additions	21a	26	(924)	(4,104)	931	760	966	66,264	1	63,920
Disposals		–	(12,119)	(73,138)	(562)	(1,545)	(30,758)	(403)	–	(118,525)
Impairments	21b	–	–	(171)	–	–	(76)	–	–	(247)
Reclassifications		–	80,901	13,610	371	–	–	(108,285)	11,296	(2,107)
Revaluations	21b	3,869	–	(46)	226	393	49	–	–	4,491
At 31 March 2008		68,417	796,886	123,930	25,781	26,116	3,334	99,506	182,714	1,326,684
Depreciation										
At 1 April 2007		2,686	204,896	138,873	20,134	12,882	18,503	–	43,501	441,475
Charged in year	21c	1,150	84,431	19,809	1,082	2,619	2,003	–	36,350	147,444
Disposals		–	(4,806)	(63,513)	(545)	(1,461)	(19,248)	–	–	(89,573)
Impairments	21b	–	–	(77)	–	–	–	–	–	(77)
Reclassifications		–	–	–	–	–	–	–	–	–
Revaluations	21b	239	–	(35)	103	177	(8)	–	–	476
At 31 March 2008		4,075	284,521	95,057	20,774	14,217	1,250	–	79,851	499,745
Net Book Value at 31 March 2008		**64,342**	**512,365**	**28,873**	**5,007**	**11,899**	**2,084**	**99,506**	**102,863**	**826,939**
Net Book Value at 31 March 2007		**61,836**	**524,132**	**48,906**	**4,681**	**13,626**	**14,650**	**141,930**	**127,916**	**937,677**
Asset financing:										
Owned		5,062	512,365	28,873	5,007	9,371	2,084	98,791	102,863	764,416
Finance leased		–	–	–	–	–	–	–	–	–
On-balance sheet PFI Contracts		59,280	–	–	–	2,528	–	–	–	61,808
PFI residual interests		–	–	–	–	–	–	715	–	715
Net Book Value at 31 March 2008		**64,342**	**512,365**	**28,873**	**5,007**	**11,899**	**2,084**	**99,506**	**102,863**	**826,939**

* Opening balances restated by £6k for Cost or Valuation and Depreciation relating to HSE.

a. Total additions in the year were £63.9 million (2006-07 £175.6 million). This consisted of £66.9 million (2006-07 £174.7 million) of capital expenditure and £(3.0) million (2006-07 £0.9 million) of assets which had been purchased prior to 2007-08 but which had previously been charged as expenditure.

b. The net increase in asset values arising from the revaluation of fixed assets of £4.0 million (2006-07 £1.8 million) has been transferred to the Revaluation Reserve. The impairment in fixed assets arising from the permanent decrease in value of £0.2 million (2006-07 £20.5 million) in excess of previous revaluation has been charged to the Operating Cost Statement.

c. Total depreciation in the year was £147.4 million (2006-07 £169.2 million). This consisted of £141.3 million (2006-07 £158.6 million) charged to the Operating Cost Statement and £6.1 million (2006-07 £10.6 million) relating to assets purchased prior to 2007-08 charged to the General Fund. The in year depreciation charge for On-balance Sheet PFI Contracts is £1.0 million (2006-07 £1.0 million). The loss on sale of fixed assets charged to the Operating Cost Statement in the year is £17.5 million (2006-07 loss of £11.1 million).

Land and Buildings comprise the following:

	Freeholds	Short Leaseholds	Total
	£000	£000	£000
Cost or Valuation			
At 1 April 2007	5,369	59,153	64,522
Additions	26	–	26
Disposals	–	–	–
Impairments	–	–	–
Reclassifications	–	–	–
Revaluations	172	3,697	3,869
At 31 March 2008	**5,567**	**62,850**	**68,417**
Depreciation			
At 1 April 2007	312	2,374	2,686
Charged in year	164	986	1,150
Disposals	–	–	–
Reclassifications	–	–	–
Revaluations	29	210	239
At 31 March 2008	**505**	**3,570**	**4,075**
Net Book Value at 31 March 2008	**5,062**	**59,280**	**64,342**
Net Book Value at 31 March 2007	**5,057**	**56,779**	**61,836**

d. The Department, with the exception of HSE, 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

Jones Lang LaSalle professionally revalued all land and building assets on the Buxton site as at 31 March 2005. Additionally, the freehold property at Carlisle was independently valued at 31 March 2006 by Donaldsons, Chartered Surveyors. In each case, the valuations were in accordance with the Appraisal and Valuation Standards of the Royal Institute of Chartered Surveyors (RICS).

f. Cash Flow Reconciliation

	Note	2007-08	Restated 2006-07
		£000	£000
Capital Creditors and Accruals at 1 April	27	106,422	141,479
Capital Prepayments at 1 April	25	–	–
Movement on long-term creditors		815	916
Restatement		10,931	474
Capital additions		66,795	174,681
Capital Prepayments at 31 March	25	–	–
Capital Creditors and Accruals at 31 March	27	(79,646)	(106,422)
Purchases of Tangible Fixed Assets as per Note 32b		**105,317**	**211,128**

22. Intangible Fixed Assets

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

	Purchased software licences
	£000
Cost or valuation	
At 1 April 2007	62,240
Additions	7,882
Disposals	(132)
Impairments	(5,153)
Reclassifications	2,107
Revaluations	–
At 31 March 2008	**66,944**
Amortisation	
At 1 April 2007	10,040
Charged in year	8,509
Disposals	(45)
Impairments	(1,975)
Reclassifications	–
Revaluations	–
At 31 March 2008	**16,529**
Net book value at 31 March 2008	**50,415**
Net book value at 31 March 2007	**52,200**

a. Total additions in the year were £7.9 million (2006-07 £22.2 million). This consisted of £7.9 million (2006-07 £23.2 million) of capital expenditure and £nil million (2006-07 £(1.0) million) of assets which had been purchased prior to 2007-08 but which had previously been charged as expenditure.

b. The impairment in fixed assets arising from the permanent decrease in value of £3.1 million (2006-07 £4.0 million) in excess of previous revaluation has been charged to the Operating Cost Statement.

c. Total depreciation in the year was £8.5 million (2006-07 £5.8 million). This consisted of £8.4 million (2006-07 £6.0 million) charged to the Operating Cost Statement and £0.1 million (2006-07 £(0.2) million) relating to assets purchased prior to 2007-08 charged to the General Fund.

Cash Flow Reconciliation

		2007-08	2006-07
	Note	**£000**	**£000**
Capital Creditors and Accruals at 1 April		–	58
Capital additions		7,882	23,154
Capital Prepayments at 31 March		–	–
Capital Creditors and Accruals at 31 March	27	(3,010)	–
Purchases of Intangible Fixed Assets as per Note 32b		**4,872**	**23,212**

23. Investments

	2007-08 Working Links (Employment) Ltd Share Capital
	£000
Balance at 1 April 2007	1,433
Additions	–
Disposals	–
Revaluations	18
Balance at 31 March 2008	**1,451**

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, Capgemini UK plc and Mission Australia. The valuation is based on the one-third share that the Department has of the company's net assets based on its audited accounts for the year ended 31 March 2008. There has been no change in the number of shares owned by the Department during the year.

The net assets and results of the above body are summarised below.

	Working Links (Employment) Ltd
	£000
Net assets at 31 March 2008	4,352
Turnover	77,247
Surplus/profit for the year (before financing)	846

The Department has a one-third share of the above figures.

24. Stocks and Work in Progress

	2007-08	2006-07
	£000	£000
Consumables	–	–
Work in Progress	595	721
Finished Stock for sale	751	804
	1,346	**1,525**

Stock and Work in Progress consists of publications, stationery and protective clothing in relation to the Health and Safety Executive.

25. Debtors

25(a) Analysis by type

Administration Debtors	Note	31 March 2008 £000	Restated 31 March 2007 £000
Amounts falling due within one year			
Trade debtors		18,801	25,672
Deposits and Advances	25a	4,807	2,719
Amounts due from Other Government Departments		125,119	73,420
VAT		40,614	34,031
Amounts owed by Working Links (Employment) Ltd		–	100
Other debtors		102,332	88,661
Prepayments and accrued income	25f	294,506	45,721
Early departure prepayment	28a	20	125
Accommodation prepayment		948	948
TIES prepayment		2,791	2,791
TREDSS prepayment		114,151	101,491
HSE prepayment		154	154
Provision for bad and doubtful debts		(32,828)	(21,889)
Amounts due from the Consolidated Fund		45,910	–
		717,325	**353,944**
Amounts falling due after more than one year			
Deposits and advances	25a	820	1,054
Prepayments & accrued income		30	28
Early departure prepayment	28a	6	26
Accommodation prepayment		18,022	18,970
TIES prepayment		25,116	27,907
TREDSS prepayment		161,714	245,271
HSE prepayment		3,923	4,076
		209,631	**297,332**

Programme Debtors

	Note	Gross Debtors £000	Provision for Doubtful Debt £000	31 March 2008 Net Debtors £000	Restated 31 March 2007 Net Debtors £000
Amounts falling due within one year					
Benefit Overpayments					
Contributory Benefits	25b	36,847	(8,838)	28,009	66,194
Non-Contributory Benefits	25b	131,291	(87,062)	44,229	127,501
Housing Benefit and Council Tax	25c	259,536	–	259,536	156,593
Social Fund		696	–	696	183
Prepayments					
Contributory Benefits		361,617	–	361,617	144,688
Non-Contributory Benefits		152,837	–	152,837	71,836
Local Authorities		–	–	–	48,850
Social Fund					
Funeral Payments		57,614	(56,458)	1,156	1,050
Other Loans		462,956	(1,064)	461,892	420,637
European Social Fund & Other EU Debtors	25e/27c	784,112	(25,886)	758,226	799,932
Other Programme Debtors	25d	–	–	–	6,878
		2,247,506	**(179,308)**	**2,068,198**	**1,844,342**
Amounts falling due after more than one year					
Benefit Overpayments					
Contributory Benefits	25b	163,892	(29,820)	134,072	89,313
Non-Contributory Benefits	25b	1,459,653	(567,898)	891,755	748,299
Social Fund		–	–	–	–
Social Fund					
Funeral Payments		53,674	(49,225)	4,449	6,503
Other Loans	25g	355,986	(2,154)	353,832	391,199
Other Programme Debtors		2,140	–	2,140	711
		2,035,345	**(649,097)**	**1,386,248**	**1,236,025**
Total Debtors				**4,381,402**	**3,731,643**
Of which					
Due within one year				2,785,523	2,198,286
Due after one year				1,595,879	1,533,357

a. Deposits and advances due within one year includes £0.2 million (2006-07 £0.2 million) of house purchase advances due from 154 (2006-07 197) members of staff. Those due after more than one year include £0.8 million (2006-07 £1.1 million) due from 133 (2006-07 186) members of staff.

b. Included in Contributory Benefits overpayments is an amount of £3.3 million (2006-07 £3.4 million) in respect of Compensation Recovery Unit debtors. The amount included within Non-Contributory Benefit overpayments is £7.2 million (2006-07 £9.8 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 £74.6 million (2006-07 £64.3 million) which relates to amounts due which, once received, will be payable to the Consolidated Fund (See also Note 27).

f. Prepayments includes an amount of £203.5 million paid in advance to HMRC as partial settlement of the 2008-09 SSP/SMP liability. This prepayment has arisen due to settlements paid on a forecast that was subsequently revised downwards based on revised outturn figures for 2003-04 and 2004-05 which originate from the systems operated by HMRC.

g. Other Social Fund Loans are made up of Budget and Crisis Loans which have been included at fair value, calculated by the discounting of future cash flows using the National Loans Fund rate of 5%.

25(b) Intra-Government Balances

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

		Amounts falling due within one year		Amounts falling due after more than one year	
		2007-08	Restated 2006-07	2007-08	2006-07
	Note	£000	£000	£000	£000
Balances with other central government bodies		476,011	218,096	–	–
Balances with local authorities		276,052	176,863	1,429	–
Balances with NHS Trusts		204	17	–	–
Balances with public corporations and trading funds		26,137	19,666	–	–
Intra-government balances		778,404	414,642	1,429	–
Balances with bodies external to government		2,007,119	1,783,644	1,594,450	1,533,357
Total debtors at 31 March	25(a)	**2,785,523**	**2,198,286**	**1,595,879**	**1,533,357**

26. Cash at Bank and In Hand

	Note	2007-08 Total £000	2006-07 Total £000
Balance at 1 April		211,727	113,933
Net change in cash balances		(18,433)	103,597
Balance at 31 March		**193,294**	**217,530**
Less Bank Overdraft reported in Creditors	27	(137,835)	(5,803)
		55,459	**211,727**
The following balances at 31 March are held at:			
Office of HM Paymaster General	26a	48,273	206,552
Commercial banks and Cash in Hand		7,186	5,175
		55,459	**211,727**

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

27(a) Analysis by type

	Note	31 March 2008 £000	31 March 2007 £000
Administration Creditors			
Amounts falling due within one year			
Taxation and social security		56,145	55,776
Superannuation		39,157	39,095
Trade creditors – non capital		68,388	49,692
– capital	21f/22	538	1,118
Amounts due to other Government Departments		22,875	7,576
Other creditors		43,778	11,381
Accruals and deferred income		535,799	502,113
Capital Accruals	21f/22	21,248	45,249
Bank Overdrafts	26	137,835	5,803
Amounts issued from the Consolidated Fund for Supply but not spent at year end	30	–	29,952
Amounts issued from the Contingencies Fund	30	1,312	–
CFERs due to be paid to the Consolidated Fund – received		3,994	79,290
CFERs due to be paid to the Consolidated Fund – receivable	25e	31,346	20,847
Excess A in A due to the Consolidated Fund	30	3,696	1,931
		966,111	**849,823**
Amounts falling due after more than one year			
Imputed finance lease element for on-balance sheet PFI contract	21f	60,870	60,055
Other creditors		2,974	3,373
		63,844	**63,428**
Programme Creditors			
Amounts falling due within one year			
Accruals			
Contributory Benefits		1,220,904	1,028,006
Non-Contributory Benefits		639,070	565,528
Social Fund Benefits		3,174	191
Local Authorities		52,686	5,589
European Social Fund		287,490	349,566
Encashment Control	27a	37,400	55,252
Housing Benefit and Council Tax Benefit underpayments	25c	369,120	398,675
CFERs due to be paid to the Consolidated Fund – received		824	4,003
CFERs due to be paid to the Consolidated Fund – receivable	25e	43,255	43,412
Excess A in A due to the Consolidated Fund		–	–
Third Party Payments	27b	45,418	37,599
Other Government Creditors		–	285,886
Other Programme Creditors		58,395	9,050
European Social Fund & Other EU Creditors	27c	119,479	133,574
		2,877,215	**2,916,331**
Amounts falling due after more than one year			
European Social Fund	27d	375,825	278,780
		375,825	**278,780**
Total Creditors		**4,282,995**	**4,108,362**
Of which			
Due within one year		3,843,326	3,766,154
Due after one year		439,669	342,208

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 £375.8 million (31 March 2007 £278.8 million) consist of monies paid to DWP by the EU relating to European Social Fund. These advances are due to be paid back on finalisation of the 2000-2006 programmes, which is likely to be in 2011-2012.

e. Included within the Balance Sheet is a credit balance of £640.4 million (31 March 2007 £696.0 million) 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.

(b) Intra-government balances

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

		Amounts falling due within one year		Amounts falling due after more than one year	
		2007-08	2006-07	2007-08	2006-07
	Note	£000	£000	£000	£000
Balances with other central government bodies		101,189	575,995	–	–
Balances with local authorities		466,379	409,902	–	–
Balances with NHS Trusts		7,928	28	–	–
Balances with public corporations and trading funds		15,766	5,779	–	–
Intra-government balances		591,262	991,704	–	–
Balances with bodies external to government		3,252,064	2,774,450	439,669	342,208
Total creditors at 31 March	27(a)	**3,843,326**	**3,766,154**	**439,669**	**342,208**

28. Provisions for Liabilities and Charges

	31 March 2008	31 March 2007
	£000	£000
Early Departure provision (gross)	128,082	117,665
Other Administration provisions	15,722	10,787
Programme provisions	3,497,774	972,714
	3,641,578	**1,101,166**

Early departure and pension commitments

	Gross Provision		Prepayment (Note 28a)		Net Provision	
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2007 (restated)		117,665		(151)		117,514
Provided in year						
New Early retirees	57,370		–		57,370	
Uplift	963		–		963	
		58,333		–		58,333
Provisions not required written back		(3,019)		–		(3,019)
Provisions utilised in year		(46,054)		159		(45,895)
Unwinding of Discount		1,157		–		1,157
Interest received on pre-funding		–		(34)		(34)
Balance at 31 March 2008		**128,082**		**(26)**		**128,056**
Payable within one year		36,688				
Payable after more than one year		91,394				

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). The discount rate used is 2.2%.

Other Administration provisions

	Total (Note 28b)
	£000
Balance at 1 April 2007	10,787
Provided in year	7,831
Provisions not required written back	(330)
Utilised in year	(2,614)
Unwinding of discount	48
Balance at 31 March 2008	**15,722**

Programme provisions

	Other Provisions	Compensation Recovery Unit (Note 28c)	Financial Assistance Scheme (Note 28d)	Total
	£000	£000	£000	£000
Balance at 1 April 2007	–	4,695	968,019	972,714
Provided in year	4,602	–	2,485,589	2,490,191
Provisions not required written back	–	–	–	–
Utilised in year	1,585	(892)	(13,238)	(12,545)
Unwinding of discount	–	–	47,414	47,414
Balance at 31 March 2008	**6,187**	**3,803**	**3,487,784**	**3,497,774**
Payable within one year				94,054
Payable after more than one year				3,419,442

b. Other administration provisions have been made in respect of the following: dilapidations, industrial injuries, and onerous leases.

c. 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.

d. The Financial Assistance Scheme (FAS) was announced in 2004 to provide assistance to members of defined benefit occupational pension schemes that wound up under funded when their employers became insolvent during the period 1 January 1997 to 5 April 2005, before the introduction of the Pension Protection Fund. Since 2004, the scope of the scheme and the levels of assistance have been expanded.

The increased provision represents the recognition of additional liabilities in respect of a number of extensions announced to FAS*:

- The extensions announced in budget 2007 (which were legislated for after the 2006-07 Resource Accounts were finalised); and

- Some elements of the extensions announced on 17 December 2007 following the publication of the FAS Assets Review [and which have been legislated for].

*Further information regarding the extensions can be found at
http://www.dwp.gov.uk/lifeevent/penret/penreform/fas/news.asp

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

29. 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 2008. 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 2008 % per annum**	**31 March 2007 % per annum**
Inflation	3.6%	3.2%
Salary increases	5.1%	4.7%
Pension increase	3.6%	3.2%
Discount rate	6.9%	5.4%

Assets	**Long Term Return % per Annum**	**Fund value at 31 March 2008 £000**	**Fund value at 31 March 2007 £000**
Equities	7.5	50,093	32,026
Bonds	6.3	16,186	11,498
Property	6.7	15,071	6,520
Cash	4.8	2,515	1,380
Total	**7.0**	**83,865**	**51,424**

Net pensions deficit as at	**31 March 2008**		**31 March 2007**	
	£000	**£000**	**£000**	**£000**
Estimated Employer Assets		83,865		51,424
Present Value of Scheme Liabilities	(84,681)		(55,252)	
Present Value of Unfunded Liabilities	(385)		(419)	
Total value of Liabilities		(85,066)		(55,671)
Net Pension Deficit		**(1,201)**		**(4,247)**

In accordance with the requirements of the *FReM*, the fund deficit has been included on the balance sheet.

Amounts charged to Staff Costs	**31 March 2008**	**31 March 2007**
	£000	**£000**
Current Service Costs	1,915	2,182
Past Service Costs	28	–
Curtailments and Settlements	2,118	11
Total Operating Charge	**4,061**	**2,193**

Amounts charged to Other Administration Costs	**31 March 2008**	**31 March 2007**
	£000	**£000**
Expected Return on Employer Assets	3,733	3,171
Interest on Pension Scheme Liabilities	(3,053)	(2,720)
Net Administration Costs	**680**	**451**

Analysis of Amount Recognised in Statement of Recognised Gains and Losses (SRGL)	**31 March 2008**	**31 March 2007**
	£000	**£000**
Actual return less expected return on pension scheme assets	(4,822)	449
Experience losses arising on the scheme liabilities	(3,440)	(105)
Changes in Financial Assumptions Underlying the Present Value of the Scheme Liabilities	11,374	3,370
	3,112	**3,714**

Movement in Deficit During the Year	31 March 2008	31 March 2007
	£000	£000
Deficit at beginning of the year	(4,247)	(8,894)
Current Service Costs	(1,915)	(2,182)
Employer Contributions	3,295	2,655
Contributions in respect of Unfunded Benefits	20	20
Past Service Costs	(28)	–
Impact of settlement and curtailments	(2,118)	(11)
Other Finance Costs	680	451
Actuarial Gains/(Losses)	3,112	3,714
Deficit at 31 March	**(1,201)**	**(4,247)**

History of Experience Gains and Losses	31 March 2008	31 March 2007
	£000	£000
Difference Between the Expected and Actual Return on Assets	(4,822)	449
Value of Assets	83,865	51,424
Percentage of Assets	**(5.7%)**	**0.9%**
Experience Losses on Liabilities	(3,440)	(105)
Total Present Value of Liabilities	85,066	55,671
Percentage of the Total Present Value of Liabilities	**(4.0%)**	**(0.2%)**
Actuarial Gains/(Losses) Recognised in SRGL	3,112	3,714
Total Present Value of Liabilities	85,066	55,671
Percentage of the Total Present Value of Liabilities	**3.7%**	**6.7%**

Provision for retired chairs of HSC

Provision has been made for retired chairs' pensions in HSE's accounts as if they were members of PCSPS. The current Chair receives a contribution towards a private pension and is not included in the provision.

The provision reflects the valuation made by the Government Actuaries Department (GAD) at 31 March 2008. The results of the actuarial assessment are shown below:

	31 March 2008		31 March 2007	
	£000	%	£000	%
Financial assumptions				
The inflation rate assumptions		**2.75**		2.75
The rate of increase in salaries		**4.30**		4.30
The rate of increase for pensions in payment and deferred pensions		**2.75**		2.75
The rate used to discount scheme liabilities		**5.30**		4.60
The effect of accrual during year				
The current service cost (net of employee contributions)	**17**			
Any past service costs	**0**			
Gains and losses on any settlements and curtailments	**0**			
The interest cost	**58**			
Actuarial gains and losses during year				
Experience losses (gains)	**143**	**10.1**		
Effect of changes in discount rate	**(116)**	**(8.2)**		
Effect of changes in mortality assumption	**70**	**4.9**		
Effect of changes in other demographic and financial assumptions	**0**	**0.0**		
Total actuarial losses (gains)	**97**	**6.8**		
Liability				
Actives	**0**		998	
Deferreds	**1,148**		0	
Pensioners	**224**		225	
Dependant pensioners	**45**		47	
Total present value of the scheme liabilities	**1,417**		1,270	

The current service and interest cost elements are a charge to HSC's operating costs.

30. General Fund

The General Fund represents the total assets less liabilities of each of the entities within the accounting boundary, to the extent that the total is not represented by other reserves and financing items.

		2007-08		Restated 2006-07	
	Note	£000	£000	£000	£000
Balance at 1 April		(225,045)		796,570	
Restatement		78		–	
Adjusted opening balance			(224,967)		796,570
Net Parliamentary Funding					
Financing – Current year		66,261,205		62,884,374	
Financing – Prior year		–		106,605	
Amounts drawn not spent – deemed Supply		29,952		–	
			66,291,157		62,990,979
Financing in respect of transfer of functions			(13,180)		–
Net financing from the Contingencies Fund			1,312		–
National Insurance Fund			66,746,623		63,016,534
Year end adjustment					
Supply Creditor – current year	27	–		(29,952)	
Supply Debtor – current year	25	45,910		–	
Supply Debtor – previous year clearance		–		(106,605)	
Contingencies Fund Creditor – current year		(1,312)		–	
Excess A in A	27	(3,696)		(1,931)	
			40,902		(138,488)
Net Transfer from Operating Activities					
Net Operating Cost		(135,247,226)		(126,895,372)	
CFERs repayable to Consolidated Fund		(12,561)		(15,637)	
			(135,259,787)		(126,911,009)
Non Cash Charges					
Cost of Capital		(30,710)		24,463	
Auditors' remuneration	11	2,397		2,313	
Non-cash capital additions		(9,182)		(10,470)	
			(37,495)		16,306
Transfer from Revaluation Reserve	31a		458		376
Actuarial gain (loss) on pension	29		3,112		3,714
Other			(879)		(27)
Balance at 31 March			**(2,452,744)**		**(225,045)**

31. Reserves

(a) Revaluation Reserve

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

	Note	2007-08 £000	2006-07 £000
Balance at 1 April		11,962	10,184
Prior Year restatement		(9)	–
Arising on revaluation during the year (net)		4,034	2,154
Transferred to General Fund in respect of realised element of Revaluation Reserve	30	(458)	(376)
Balance at 31 March		**15,529**	**11,962**

(b) Government Grant Reserve

	Note	2007-08 £000	2006-07 £000
Balance at 1 April		4	20
Amortisation of Reserve	10b	(1)	(16)
Balance at 31 March		**3**	**4**

32. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of operating cost to operating cash flows

	Note	2007-08 £000	Restated 2006-07 £000
Net operating cost		(135,247,226)	(126,895,372)
Adjustments for non-cash transactions	12	3,012,857	1,092,662
Interest element of Finance Lease payments		815	924
(Increase)/Decrease in Stock		179	(276)
(Increase)/Decrease in Paying Agents		24,826	(59,422)
(Increase)/Decrease in Debtors		(649,759)	123,879
Less movements in debtors relating to items not passing through the OCS		(232,647)	(205,240)
Increase/(Decrease) in Creditors		42,601	338,051
Less movements in creditors relating to items not passing through the OCS		138,508	63,959
Use of provisions		(61,239)	(54,636)
Net cash outflow from operating activities		**(132,971,085)**	**(125,595,471)**

(b) Analysis of capital expenditure and financial investment

	Note	2007-08 £000	2006-07 £000
Tangible fixed asset additions	21f	(105,317)	(211,128)
Intangible fixed asset additions	22	(4,872)	(23,212)
Proceeds of disposal of fixed assets	7	11,514	2,553
Net cash outflow from investing activities		**(98,675)**	**(231,787)**

(c) Analysis of capital expenditure and financial investment by Request for Resources

	Capital Expenditure	Loans	A in A	Net Total
	£000	£000	£000	£000
Request for resources 1	3,343	–	–	3,343
Request for resources 2	57,019	–	(394)	56,625
Request for resources 3	46,261	–	–	46,261
Request for resources 4	–	–	–	–
Request for resources 5	3,564	–	(11,111)	(7,547)
Net movement in debtors/creditors	(35,512)	–	–	(35,512)
In year Capital additions	**74,675**	**–**	**(11,505)**	**63,170**
Prior year additions	-	–	–	–
Total 2007-08	**74,675**	**–**	**(11,505)**	**63,170**
Total 2006-07 (Restated)	**197,772**	**–**	**(2,553)**	**195,219**

(d) Analysis of financing

	Note	2007-08	Restated 2006-07
		£000	£000
From the Consolidated Fund (Supply) – current year	30	66,261,205	62,884,374
From the Consolidated Fund (Supply) – prior year	30	–	106,605
From the National Insurance Fund	30	66,746,623	63,016,534
Advances from the Contingencies Fund	30	1,312	–
Repayments to the Contingencies Fund		–	–
Net financing		**133,009,140**	**126,007,513**

(e) Reconciliation of Net Cash Requirement to Increase/(Decrease) in cash

	Note	2007-08	Restated 2006-07
		£000	£000
Net cash requirement		(66,337,066)	(62,854,422)
From the Consolidated Fund (Supply) – current year	30	66,261,205	62,884,374
From the Consolidated Fund (Supply) – prior year	30	–	106,605
Amounts due to the Consolidated Fund received and not paid		4,818	33,024
Amounts due to the Consolidated Fund received in prior year and paid over		(85,225)	(73,716)
Amounts due to Consolidated Fund – excess A in A	27	–	1,931
Increase/(decrease) in cash		**(156,268)**	**97,796**

33. Notes to the Consolidated Statement of Operating Costs by Departmental Aim and Objectives

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

(a) Administration Expenditure

Administration expenditure in the Consolidated Statement of Operating Costs by Departmental Aim and Objectives has been assigned to objectives based on RfRs. Expenditure against RfR5 has been apportioned to Objectives 1-4 based on the Administrative expenditure incurred on that objective. Expenditure on Objective 5 is based on the work undertaken to support PSA targets 9 and 10, which underpin this objective. There are no programme costs attributed to objective 5 as this objective consists purely of administration costs.

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

	2007-08	Restated 2006-07
	£000	£000
Objective 1 (Children)	2,252,807	2,189,805
Objective 2 (Work)	32,134,804	31,222,444
Objective 3 (Pensions)	78,529,420	71,859,660
Objective 4 (Disabled)	16,367,838	15,586,442
Objective 5 (Payment accuracy)	–	–
	129,284,869	**120,858,351**

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, Carer's Allowance

Social Fund loans are not included in net operating cost and are not, therefore, included within the note. For information purposes, outstanding Social Fund loans of £821 million (2006-07 £819 million) can be allocated to the Department's objectives as follows:

	2007-08	2006-07
	£000	£000
Objective 2	821,329	819,389
Total	**821,329**	**819,389**

(c) Capital Employed by Departmental Aim and Objectives at 31 March 2008

	31 March 2008	Restated 31 March 2007
	£000	£000
Objective 1	(43,948)	(26,680)
Objective 2	(404,519)	96,048
Objective 3	(1,819,816)	(449,845)
Objective 4	166,802	167,398
Objective 5	(335,731)	–
	(2,437,212)	**(213,079)**

34. Capital Commitments

	31 March 2008	31 March 2007
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	**7,100**	**9,803**

35. Commitments under Non-PFI Leases

Operating Leases

	31 March 2008 Land & Buildings	Other	31 March 2007 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	412	4,037	171	500
Expiry after 1 year but not more than 5 years	1,799	2,851	2,275	2,988
Expiry thereafter	10,579	–	11,782	–
	12,790	**6,888**	**14,228**	**3,488**

Finance Leases

The Department did not have any commitments in respect of Finance Leases.

36. Commitments under PFI contracts

Off-Balance Sheet

In the period prior to 2007-08, the Department had entered into various contracts let under the Private Finance Initiative (PFI) which had been assessed under FRS 5 as being off the Department's balance sheet, the majority of risks having been transferred to the supplier. The Department undertook a major exercise in 2005-06 to consolidate existing contracts to deliver greater flexibility and improve both quality and the value for money delivered.

The resulting restructuring of contracts has impacted on the disclosure of some of these contracts. Where the contracts are still classed as PFI contracts, details of in year expenditure, capital values and future commitments are given below. Where the PFI contract has been subsumed into a consolidated contract which is not classified as a PFI contract, the expenditure detailed relates to the period in 2005-06 prior to the consolidated contract coming into effect. Any future commitments resulting from the consolidated contracts are detailed under Note 37 "Other financial commitments".

The Department has entered into a PFI Partnership Agreement under which the former Department of Social Security 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 £455 million.

The Department has also entered into a contract with Northgate Rebus HR Ltd for the provision of payroll and HR managed services. The contract ran from 1 April 1999 to 30 September 2007 (originally 30 June 2007) but has been extended to 31 March 2009. The estimated capital value is £5.8 million and was calculated based on the level of assets transferred at contract commencement.

Health & Safety Executive (HSE) has signed a 30 year 'design, build, finance and operate' contract with Kajima Development (Bootle Accommodation Partnerships) Ltd for the provision of fully serviced accommodation in Bootle, Merseyside. The contract runs from May 2005 to May 2035. The estimated capital value of the contract is £60 million.

HSE have streamlined the management of its IT service 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 £26.5 million.

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 30 year 'design, build, finance and operate' contract with Investors in the Community (Buxton)(ICB) Ltd.

The transactions arising out of this contract have been accounted for in accordance with Technical note No.1 (Revised), entitled *How to Account for PFI Transactions as required by the FReM*. As the balance of the risks and rewards of ownership of the PFI property, situated at Harpur Hill, Buxton, is borne by HSL, rather than the PFI provider, ICB Ltd, the buildings and furniture provided under the contract are included in HSL's balance sheet as fixed assets. The liability to pay for these assets is in substance a finance lease obligation. Contractual payments comprise an imputed finance lease charge and a service charge.

As part of the PFI contract, HSL handed over all of the land and buildings at the Sheffield site to ICB Ltd, and a prepayment for their fair value of £4.6 million, as determined by the contract, is recognised in the accounts and amortised evenly over the life of the PFI contract.

The Accounts are prepared on the basis that the economic effect of granting a lease at Buxton to ICB Ltd is not material because the difference between the existing use value of the freehold land at Buxton as at 31 March 2008 and the value of the reversionary interest in the freehold land as at October 2034, is not significant, given the location of, and potential uses for, the Buxton site.

Imputed finance lease obligations under on-balance sheet PFI contracts

	2008-09
	£000
Rentals due within 1 year	5,069
Rentals due after one year but within 5 years	21,368
Rentals due after 5 years but within 10 years	30,627
Rentals due after 10 years but within 15 years	35,169
Rentals due after 15 years but within 20 years	40,045
Rentals due after 20 years but within 25 years	45,547
Rentals due after 25 years but within 30 years	15,517
	193,342
Less interest element	(132,472)
	60,870

Charge to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions and the service elements of on-balance sheet PFI transactions was £511.1 million (2006-07 £536.4 million) (see also Note 9), and the payments to which the Department is committed next year, analysed by the period during which the commitment expires, are as follows:

	2008-09	2007-08
	£000	£000
Expiry within 1 year	3	550
Expiry after 1 year but not more than 5 years	15,802	16,018
Expiry after 5 years but not more than 10 years	583,509	–
Expiry after 10 years but not more than 15 years	–	626,305
Expiry after 15 years but not more than 20 years	–	–
Expiry after 20 years but not more than 25 years	–	–
Expiry after 25 years but not more than 30 years	–	7,925
	599,314	**650,798**

37. Other financial commitments

The Department has entered into the following non-cancellable contracts (which are not leases or PFI contracts).

TREDSS

TREDSS stands for the Transformation of EDS Services and is a renegotiation, via a Standard Services Business Allocation (SSBA), of the ACCORD, ITPA and SOBA contracts which the Department previously had with EDS. The Department is of the opinion that TREDSS does not meet the criteria to be disclosed as a PFI contract. Total expenditure on this contract in 2007-08 was £617.5 million (2006-07 £643.0 million).

ICONS

On 1 October 2005, the Department consolidated two existing contracts (Advanced Telephony Business Allocation and Wide Area Network Services) with BT Syntegra into ICONS. The Department is of the opinion that the contract does not constitute a PFI arrangement. Total expenditure on this contract in 2007-08 was £204.8 million (2006-07 £222.0 million).

Liberata

The Department has entered a contract with Liberata UK Ltd for payment processing services. The contract was terminated on 31 December 2007 with the work returning "in house". Total expenditure on this contract in 2007-08 was £2.9 million (2006-07 £3.6 million).

IT Contracts

The Department has ended an existing contract with one of its suppliers for the design, build and implementation of a new IT system. The Department is currently in discussions with the supplier in relation to the terms of the closure and any transitional arrangements. Meanwhile the Department is continuing to progress the design of the system.

Future Commitments

At 31 March 2008, the payments to which the Department is committed, analysed by the period during which the contract expires, are as follows:

	2008-09	2007-08
	£000	£000
Expiry within 1 year	297,840	–
Expiry after 1 year but not more than 5 years	932,402	453,726
	1,230,242	**453,726**

38. 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 required by the FReM, and 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

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

Financial Liabilities

As at 31 March 2008 the Department's gross financial liabilities totalled £3,506.5 million (31 March 2007 – £1,372.0 million), all of which related to non-interest bearing financial liabilities. The weighted-average period to maturity was 27.6 years (31 March 2007 – 15.1 years).

Financial Assets

As at 31 March 2008 gross financial assets totalled £1,442.4 million (31 March 2007 – £1,448.8 million) of which £1,387.0 million (31 March 2007 £1,237.1 million) relates to non-interest bearing financial assets. The weighted-average period to maturity was 6.4 years (31 March 2007 – 6.4 years).

£0.1 million (31 March 2007 – £0.1 million) related to fixed-rated financial assets. The weighted-average period for which the rate is fixed was 2.0 years (31 March 2007 – 2.3 years), and the weighted-average interest rate was 32.0% (31 March 2007 – 15.4%).

Fair Values

The book values of the Department's financial assets and liabilities at 31 March 2008 are not materially different from their fair values. They have accordingly not been shown separately.

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39. Contingent Liabilities disclosed under FRS 12

Child Support Agency debt

The Agency operates a discretionary scheme for certain qualifying cases whereby a lump sum payment of arrears is made to a parent with care before that money is collected by the Agency from the non-resident parent. Entitlement to such a payment is neither automatic nor referred to in legislation. These payments are shown in the Accounts as advance payments of maintenance and interest payable and in 2007-08 £1.097 million (2006-07 £1.614 million) was charged. At 31 March 2008 a number of cases existed which may subsequently qualify under this scheme, giving rise to a potential liability. The amount of this liability is dependant on a number of factors, the outcome of which for each case is unable to be determined. For this reason no provision has been made in the Accounts. Any future potential liability is mitigated by the fact that this scheme can be withdrawn without notice.

As at 31 March 2008 the Agency had entered into arrangements with external debt collecting organisations, to collect outstanding maintenance on certain client fund accounts. At that date the total referrals made to these organisations totalled £285million. Were this amount to be collected in full it would give rise to a future liability of commission payments of £47million.

Child Support Agency – IT Services

As at 31 March 2008 the Agency had formally contracted with its IT and Telephony suppliers for a number of systems enhancements and new releases. These contracts include milestone and delivery incentives payable if time and quality criteria are met. The maximum value of milestone and delivery incentives payable if all contractual criteria were met after the balance sheet date is £6.481 million.

Carson Case

The Pension Service has a contingent liability in the form of the 'Carson Case'. The European Court of Human Rights will consider an appeal to up-rate State Pensions paid to claimants living in certain foreign countries where its current policy is to freeze the rate. There is no indication of when a decision may be reached and there are several potential outcomes. Additional operational costs may be incurred if the agency is required to administer backdated payments and compensation.

Remploy Limited

The Secretary of State for Work and Pensions has given formal guarantee in respect of Remploy Limited, an Executive Non-Departmental Public Body. In the event of Remploy Limited becoming insolvent, the Secretary of State has agreed to pay Remploy Limited a sum equal to any and all of its remaining debts i.e the excess of its liabilities over and above the proceeds from realisation of its assets. In addition to this guarantee over Remploy's net liabilities the Department also guarantees to cover any shortfall in its pension provision.

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. 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 the 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 year and, as the 'Consortium Agreement' year runs from October to September, £2 million in totality.

ESF Repayments

A liability could arise in 2009 at the closure of the 2000-06 ESF programme when the ESF Audit Authority is required to produce a closure statement for each ESF programme. There is a risk that any adverse opinions might result in the European Commission imposing financial corrections. At present there is uncertainty as to the amount of any potential liability and therefore a provision cannot be justified at this stage.

Financial Assistance Scheme

In December 2007, the Government announced its intention for the Financial Assistance Scheme to take over payments of some fully funded pensions and other associated benefits in qualifying schemes and in return, to take the assets of those pension schemes into Government (the FAS Review of Assets estimated the value of these assets to be £1.7billion). Regulations to give effect to this are planned for later this year to come into force in early 2009. As a result, the liabilities associated with the Financial Assistance Scheme will increase.

Health and Safety Executive

HSE is currently defending two equal-pay cases (Cadman and Wilson). In October 2003, HSE successfully appealed to the Employment Appeal Tribunal against an Employment Tribunal decision in the case of Cadman, 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 (ECJ). The ECJ judgement was handed down in October 2006, following which the Court of Appeal remitted the case back to the Employment Tribunal for a rehearing. No date has yet been fixed for Cadman to be reheard.

Meanwhile, the 'sister' case of Wilson which had been stayed before the Employment Appeal Tribunal pending the outcome of the Cadman case in the ECJ was remitted to the Employment Tribunal sitting at Shrewsbury. The Employment Tribunal applying the ECJ decision in the Cadman case found in HSE's favour. Wilson has to be appealed to the Employment Appeal Tribunal, although no hearing date has yet been set.

Towards the end of the 2005-06 financial year, both HSL and a main contractor engaged by HSL, received claims alleging that injuries had been incurred by an employee of a sub-contractor engaged by the main contractor to work on HSL's site at Buxton. The risk of liability in respect of a personal injury claim against HSL is considered to be low.

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 and 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.

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 customers of working age. Between April 2007 and March 2008, The Pension Service contacted over 400,000 pensioner customers affected by the suspension of deficiency notices. Customers who reached State Pension age between 6 April 1998 and 24 October 2004 (inclusive) were 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 at 31 March 2008, State Pension arrears of £86.9 million had been paid out in relation to the pensioner exercise, plus interest of £7.4 million. The administrative cost of the project to this date has been £31.6million.

The Rent Service

There is currently one legal claim against the Rent Service, the outcome of which cannot at present be stated with certainty. This claim has not been settled. A cost of £168,000 has been estimated based on previous experience of similar claims. A cost of £70,000 has also been estimated for two pending Employment Tribunal cases. These costs have not been provided for in these financial statements.

Employee Assistance Programme

The Department has a potential liability in respect of tax on 'legal advice' provided by the Employee Assistance Programme (EAP). This potential liability has arisen as a result of a Statutory Instrument introduced in August 2000. Although 'legal advice' forms a small part of the EAP services the rules state that where any part of an EAP service provides 'legal advice' the whole of that service is liable for tax. The Employee Assistance Professional Association are challenging the HMRC policy and interpretation of 'legal advice' on the basis that it provides clear employer benefit as it is an essential part of the employer's resources for maintaining the well being of its employees. The Department has entered into discussions with HMRC. It is currently not possible to estimate the value of this liability so no provision has been made in these accounts.

Pneumoconiosis Payments

The Department is accountable for compensation payments in relation to pneumoconiosis. Compensation payments are made under the workers' Pneumoconiosis Compensation Payments Scheme which 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. The payment amounts and the number of years for which they will continue are unclear. No reliable estimate of the financial effect can therefore be given.

European Court Exportability Judgement – Disability Benefits

A decision made on 18 October 2007 by the European Court of Justice means that certain UK disability benefits are to be considered to be sickness benefits and consequently will be paid to some people who leave the UK to live in another European Economic Area (EEA) state or Switzerland providing they meet certain eligibility criteria.

Actual costs and numbers of cases are not yet known at present and the Government is still assessing the full impact of the judgement with its legal advisors and EU, therefore a contingent liability has been noted.

Transfer of State Pensions and Benefits

The Transfer of State Pensions and Benefits Regulations 2007 allow for a persons rights which have accrued by virtue of National Insurance contributions to be transferred to the pension scheme for officials and servants of Community institutions and a transfer payment made accordingly by the Department.

There are a number of cases in progress where transfer values have been issued and which have been recognised in the accounts as a provision. The other cases are still being processed, no values have been calculated and therefore a contingent liability has been noted.

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

Quantifiable

The Department has entered into the following quantifiable contingent liabilities by offering guarantees or 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 2007	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2008	Amount reported to Parliament by Departmental Minute
	£000	£000	£000	£000	£000	£000
Intention to Proceed	17	–	–	(17)	-	–
Letters of Comfort	17,223	11,890	–	(17,223)	11,890	–
Other	5,000	–	–	(5,000)	-	–
	22,240	**11,890**	**–**	**(22,240)**	**11,890**	**–**

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.

Prior to contract signature, a common instrument used by the Department to provide commercial cover to a supplier for work to proceed is a Letter Of Comfort (LOC). When the contract is subsequently signed, the LOC is superseded by the contract and the LOC lapses. This was the case with all such LOCs that ended during 2006-07, which have been categorised above as Obligations expired in year. Had contracts not been signed, the Department would have been required to pay the supplier concerned under the appropriate LOC, in which case 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.

There were no liabilities reported to Parliament during the course of the year as all contingent liabilities arose during the normal course of business and hence there was no requirement for these to be reported.

41. Losses and Special payments

Non-Contributory & Jobseekers Allowance (Contributory) Benefits

Losses Statement	**2007-08**	**2006-07**
	£000	**£000**
Total 502,676 cases, to the value of £212.523 million.		
Details		
General Losses		
General losses are cash losses due to irrecoverable overpayments of benefits recorded during the year. For Income Support (IS) and Jobseeker's Allowance (JSA) cases, where the customer'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". The General Losses amount for 2007-08 has increased significantly since 2006-07 due to a one-off exercise in November 2007 that identified a large number of customers on Debt Manager that had a date of death recorded. This led to a change in process where all customers with a date of death 6 months prior to the current date automatically have their debts written off. In addition a change in ruling was introduced, that ensured that all small overpayments, that were impractical to pursue, were recorded on Debt Manager and immediately written off.	167,400	86,728
Duplicate Payments of Disability Living Allowance/Attendance Allowance		
A number of cases have been identified where payments of Disability Living Allowance (DLA) and Attendance Allowance (AA) have been duplicated. In addition to the actual award of DLA or AA, further duplicate payments were made with State Pension or PC awards. 3,930 cases are affected, totalling £30,632,544 in overpayments. These overpayments were caused by Departmental error and not by any failure on the part of the customers. The Department has contacted all of the customers involved to explain the error and has corrected the levels of benefit.	30,633	–

	2007-08	2006-07
	£000	£000

Organised and Serious Fraud

A national team of specialised officers within the Fraud Investigation Service (FIS) conducts investigations into organised and systematic abuse of the benefit system.

A total loss of £6,544,171 was incurred on cases closed up to 31 March 2008 relating to 21,195 cases.

3 operations were closed which, individually, involved amounts of fraud before recoveries of over £250,000, these were: Operation OPTICAL at £3.59million, Operation SEINE at £397,700 and Operation PUCCON at £373,194.

Operation OPTICAL – This was an instrument of payment case where DWP cheques were stolen from the Royal Mail in London and subsequently altered in value and cashed across the country. Liaison with Post Offices in Staffordshire led to the investigation, which identified a number of suspects.

On 13 March 2008, an individual was jailed for 5.5 years at Stafford Crown Court for his role in the fraud totalling more than £3.5million. One other key player in the fraud had already been jailed, for 3.5 years.

Operation SEINE – Following pro-active work during August 2003, FIS discovered a number of lost in transit order book frauds at Newkirkgate Post Office, Leith. These orders had not been scanned through the Post Office computer system and it was strongly suspected that this was internal fraud. Post Office Investigation Section was contacted and it transpired that they had just opened up their own internal investigation concerning overclaims at this Post Office. A joint investigation was subsequently undertaken.

During subsequent searches approximately £5,000, lost in transit, internal frauds were found. However these searches also uncovered over claims from the Post Office, by the Postmistress, totalling almost £500,000. Over a period of 1 year it was discovered that 7 "missing" pouches were never received by the Paid Order Unit. Whilst this Post Office claimed the amounts paid out for these particular weeks, the orders were then re-introduced and double claimed in the following 2-week period.

Two suspects were detained under Section 14 of the Criminal Procedure Scotland Act 1995 (on Thursday 15 April). They were subsequently arrested and charged with embezzlement totalling £398,000 (Period October 2002 to 3 September 2003). A private prosecution was made by the Post office and a settlement was made out of court.

Operation PUCCON – This investigation involved an allegation of multiple claims to benefit from an address in Ealing, London W5.

At the outset of the investigation the main subject potentially had control over 23 claims in total over a period of approximately 8 years (10 years if his own claims are included) and at one point there were 13 live claims to benefit.

FIS investigated all elements of the Pension Credit (PC)/IS, JSA and HB fraud.

The individual was charged with 15 offences in total under the Theft Act 1968

In September, the individual pleaded guilty to false accounting and obtaining money by deception and was sentenced to 33 months imprisonment at Isleworth Crown Court.

	2007-08	2006-07
	6,544	1,946

	2007-08	2006-07
	£000	£000

Overpayments of Income Support and Jobseekers Allowance Child Premium arising from Child Tax Credit

If a customer is receiving IS or Income Based JSA (JSA(IB)) Child Premium, and either the customer or known partner is transferred to Child Tax Credit, any Child Premiums should be removed, thereby reducing the amount of IS or JSA(IB) paid.

An interface was introduced to alert the IS/JSA Computer Systems when the customer or known partner started to claim Child Tax Credit. Scans were conducted of the IS and JSA systems to identify cases where the removal of the Child Support Premiums had not been carried out, resulting in overpayments of IS and JSA.

In addition to the 29,581 recorded in the 2006-07 account, a further 2,247 cases were identified in 2007-08. DWP now estimate the value of these cases at £1.65million.

	2007-08 £000	2006-07 £000
Ministers and the Permanent Secretary have agreed that these payments should be written off on the basis that they are not recoverable and/or not cost-effective to pursue.	1,652	21,742

Internal Fraud

Investigations into suspected frauds or abuse by staff are conducted by a dedicated national team within the Department's Risk Assurance Division (RAD).

In the period 01 April 2007 to 31 March 2008, a total of 66 investigations were completed that involved a loss to public funds, 30 of these related to losses in respect of benefit. The total loss to the Department from the 30 cases is £393,567. The losses refer to identified sums that have been overpaid and not written off. The matter of recoverability is for the individual Businesses within DWP.

The largest single case involving loss of benefit, listed below as case 1, involved personal benefit fraud by a member of staff, the loss in this case was £112,000.

3 cases involved losses of more than £50,000. None of these cases were identified as being attributable to the National Insurance Fund.

1. A member of staff claimed Incapacity Benefit (IB), Housing Benefit (HB) and Council Tax Benefit (CTB) for themselves, their spouse and 4 children in 1992. They failed to declare a change of circumstances when they started work for DWP in 1993. The claim for IB was only withdrawn in 2004. The loss was approx £87,000 in IB and £25,000 in HB and CTB.

2. A member of staff knowingly allowed and colluded with their partner to claim benefits (IS, HB and CTB) as a single parent whilst they were living together. The total loss was £64,000.

3. A member of staff was paid Invalidity benefit and a large amount of arrears of IB to which they were not entitled because they were employed by DWP. The loss was £63,153.

	2007-08 £000	2006-07 £000
	394	347

	2007-08	2006-07
	£000	£000
Contractor Fraud		
Investigations into suspected frauds or abuse by contractors are conducted by a dedicated national team within RAD. Although RAD identify whether an overpaid sum was recoverable, the actual recovery and consequential action is for the Business to progress.		
A total of 62 investigations involving frauds or abuse by contractors and their staff were completed during 2007-08. The total loss involved in these cases was £1,349,865. Of this amount, £799,857 has been identified as recoverable. These investigations cover a wide range of contracted services, including the delivery of training and development services under New Deal initiatives. Abuse ranged from not delivering the contracted level or quality of service, to falsification of records in order to inflate or support payment requests.		
The largest case resulted in a loss of £328,659. Payments were made to a firm for training services, following an investigation it was found that the company was in breach of contract. Attempts were made to obtain a settlement for the overpayment however the company went into receivership and the Department were advised that no funds were available.	550	182
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 incorrect information being stored on the Heritage Benefit Systems and occurs when bank account details are incorrectly entered onto Departmental payment systems.		
Between 2003, when POCA was introduced, and 31 March 2007 £7.282million was found to have been paid into incorrect accounts, of which £2.379million had been recovered. (Please note this is a restatement of previously quoted figures).		
During the period 1 April 2007 and 31 March 2008 a further £652,000 has been paid into incorrect accounts, of this, £347,000 has been recovered and an additional £8,000 that related to payments made prior to 01 April 2007.		
These payments are classed as official error – although repayment will be requested where the account holder receiving the incorrect payment can be identified.	5,200	–
Duplicate Christmas Bonus		
Current information indicates that overpayments of Christmas Bonus of approximately £151,000 have been made in 2007-08, compared with £154,000 in 2006-07. 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, an enhancement was made to the Programme Accounting Computer System (PACS) to enable identification of duplicate payments of Christmas Bonus that have occurred during the year. Secondly, development of future computer systems should prevent these duplicates, prior to issue of payments.	151	154

	2007-08	2006-07
	£000	£000
Special Payments		
Total 32,228 cases, to the value of £17.311 million.		
Details		
Special Payments General		
Special Payments are payments made to customers for loss of statutory entitlement or where customers have suffered an actual financial loss. Loss of statutory entitlement is where official error has led to a customer losing entitlement to a benefit that would have been received had the error not occurred or had the case been actioned timeously. Actual financial loss applies to cases where maladministration has directly caused the customer to incur additional expenditure that would not have been incurred otherwise. Between 1 April 2007 and 31 March 2008 £7.811million of Special Payments were made.	7,811	7,151
Reduced Earnings Allowance/Retirement Allowance		
Industrial Injuries Reduced Earnings Allowance (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.		
The 2006-07 Resource Account was noted to the effect that unintended expenditure has been incurred since 1996 on REA. Between 1 April 2007 and 31 March 2008, unintended expenditure continued to be incurred and is estimated to be in the region of £9.5million representing 4,000 to 5,000 cases. Approximately 200 new awards are made each year.	9,500	9,500

Other Notes

Continuation of Payment of Child Dependency Increase

Some recipients of IB, State Pension and other benefits receive a Child Dependency Increase (CDI). These increases are paid on a transitional basis because they were already in payment when new claims for CDIs were abolished in 2003 (introduction of Tax Credits).

From 10 April 2006 the Child Benefit Act 2005 altered the definition of child and introduced a new concept of a qualifying young person (QYP) for the purpose of Child Benefit. This applies to people aged 16 to 19 years.

The relevant DWP legislation was not updated by the Child Benefit Act. Consequently there is no longer a legislative basis for paying CDIs in respect of young people aged 16 or over.

Agreement from Her Majesty's Treasury is to be sought to allow the Department to continue to pay the increases on an extra-statutory basis pending the legislation being corrected in a forthcoming Bill. No one will lose benefit as a result of this legislative omission.

The benefits affected are IB, Severe Disablement Allowance, State Pension, Widowed Mother's Allowance, Widowed Parent's Allowance and Carer's Allowance (CA). There are about 19,000 increases affected and the annual expenditure is estimated at around £10 million per annum from 2006-07.

	2007-08	2006-07
	£000	£000

Overpayment of Carers Allowance Following Changes to NIRS2

Carers Allowance (CA) customers under state pension age are entitled to class 1 National Insurance (NI) credits. At the end of the tax year the CA Computer System sends details of the credits to NIRS2, which updates the customers NI account. NIRS2 then identifies any accounts where duplicate credits have occurred and an exception report (RD23) is produced. It has been established that NIRS2 will only produce an RD23 if the credits are posted to the NI account after the employer has posted their contributions.

As CA credits are posted by the end of April each year, the majority of credits will be placed in the NI account before the employers' contributions. This means that most overlaps are not being identified by NIRS2. A change request is therefore being implemented in October 2008 which will ensure that an RD23 is produced regardless of when the credits and contributions are posted. This change will cover tax years from 1997-98 onwards.

It is estimated that 90,000 – 100,000 RD23s will be generated for each of these tax years and approximately 5% would generate an overpayment, at an average of £2,000 per overpayment. This equates to approx £9 million per year. In the majority of cases the overpayment will have arisen due to failure, by the customer, to report a change in circumstances and therefore will be recoverable under Social Security Legislation. However, in some circumstances, eg where recovery is not cost effective, recovery could be waived.

Overpayments of Pension Credit when Retirement Pension in payment but not taken into account correctly

As a result of the Reinstatement of Deficiency Notice Project it was noted that there were a number of cases where State Pension had not been taken into account correctly in the Pension Credit award resulting in an overpayment. The original estimate was that up to 10,000 cases may have been incorrect. Two thirds of the scan entries have been reviewed and only 153 cases have resulted in overpayments amounting to just under £95,000. It is estimated that the remaining third of the entries still to be checked will identify similar numbers resulting in overpayments of less than £50,000.

In a separate set of cases the amount of State Pension being taken into account in the Pension Credit award did not reflect deductions being made from State Pension to recover an overpayment or to repay a Social Fund Loan. A system fix was implemented in October 2007 to prevent the wrong rate of State Pension from being imported into Income Support Computer System (ISCS), which calculates PC entitlement. It is estimated that up to 4,000 cases may have been affected but some will have already been corrected during the course of normal business. Work to review the remaining cases, re-instate deductions where appropriate, and identify any Pension Credit overpaid, will be completed in 2008-09.

	2007-08	2006-07
	£000	£000

Incapacity Benefit Credit Entitlement Records on NIRS2 and PSCS

Individuals in receipt of Incapacity Benefit payments also receive National Insurance Credits for periods when they are unable to work. These credits accrue towards an individual's entitlement to State Pension and other contributory benefits, and are used to calculate whether a particular tax year is a qualifying year for benefit purposes. The DWP's Pension Strategy Computer System (PSCS) records periods of incapacity for those claiming Incapacity Benefit and provides the HMRC National Insurance Recording System (NIRS2) with this information to allow the relevant credits to be recorded on the individual's National Insurance account. During 2004-05 it became clear that information on periods of incapacity recorded on PSCS and NIRS2 did not match in all cases. Further extensive investigation was undertaken to correct the source of the error and since November 2005 the link between PSCS and NIRS2 has worked effectively. However, this left a legacy of incorrect contributory benefit awards based on erroneous National Insurance records.

On 23 July 2007 the Under Secretary of State for Work and Pensions announced the steps the Government intended to take for the past cases where errors have occurred. For overpayments, where payments have been made and received in good faith, the Government introduced new Regulations to allow DWP to continue paying current contributory benefit awards at their current levels for the duration of their claim. The regulations came into force on 1 October 2007. Consequently these awards are legally correct and there are no overpayments. For those underpaid DWP will identify all the cases involved, correct the amount of contributory benefit to be paid and make corresponding adjustments to any income related benefit in payment. This work started in August 2007 and will be completed during 2008-09. DWP analysts estimate that errors in the payment of State Pension are likely to involve estimated annual underpayments of state pension of between £2.7 million and £5 million to up to 15,000 individuals. For Incapacity Benefit it is estimated that up to £60 per week may have been underpaid in up to 15,000 cases. However in many cases the error does not mean that people have been receiving less money through benefits as PC or IS will have been paid in lieu. It is estimated that in 60% of the State Pension cases underpaid the individual is also in receipt of PC, so no arrears will be due to the customer and in up to 45% of the IB cases underpaid IS may have been in payment. For those under pension age DWP and HMRC are correcting the National Insurance contribution record so that any future claim to a contributory benefit is correctly assessed. For those over state pension age the National Insurance contribution record will not be corrected.

Prior Years Un-referred Overpayments

Where it is possible to do so the Department identifies and recovers overpayments (see Accounting Policy note 1.3). However, the Department does not have a cost effective method of targeting and identifying recoverable overpayments from prior years, which therefore results in a loss to the Department. This does not mean that the Department is abandoning these previously un-referred payments. Where cases come to light through other means such as a notification of a retrospective change of circumstances, the Department takes appropriate action to recover these during the course of its normal business activities.

	2007-08	2006-07
	£000	£000
Housing and Related Benefits		
Losses Statement		
Total value of £19.526 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, how much of 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 104 local authorities, decided to waive recovery of HB/CTB subsidies, estimated at £19,526,110 in respect of 2001-02, 2002-03, 2003-04, 2004-05, 2005-06 and 2006-07 subsidy claims.	19,526	36,448
Special Payments		
No Special Payments occurred this year.		
Social Fund		
Losses Statement		
Total 43,304 cases, to the value of £35.848 million.		
Recoverable loans impracticable to pursue (8,537 cases).	1,136	1,297
Claims for recoverable Funeral expenses payments abandoned due to insufficient estate (27,457 cases).	28,864	32,004
Claims for recoverable Funeral expenses abandoned because they are impossible/unreasonable to pursue (4,701 cases).	4,942	13,597
Losses due to irrecoverable overpayments (non loans) recorded during the year (2,609 cases).	905	129
Special Payments		
No Special Payments occurred this year.		
Extra Statutory Payments		
No Extra Statutory Payments occurred this year.		
National Insurance Fund		
Losses Statement		
Benefit losses total 137,809 cases, to the value of £43.331 million.	43,331	35,699
Organised and Serious Fraud		
The Organised and Serious Fraud details on page 115 also apply to the National Insurance Fund.		
Special Payments		
Total 4,377 cases, to the value of £1.370 million.		
These are mainly payments to customers who have been wrongly advised on benefit entitlement	1,370	1,368

	2007-08	2006-07
	£000	£000
European Social Fund		
Losses Statement		
Total value of £9.283 million.		
A provision of £18,967,528 was included in the 2006-07 accounts in respect of the European Social Fund. In the 2007-08 accounts £6,387,859 of the opening provision has been written off, £488,475 has been recovered or provisions reversed, and additional provisions of £10,023,048 have been created. As a result £22,114,242 is carried forward as a provision in the 2007-08 balance sheet. Total write offs during 2007-08 were £9,283,025. After taking account of recoveries and over provisions, losses charged against the Operating Cost Statement in 2007-08 are £12,429,739.	9,283	11,384
Administration		
Losses Statement		
Total 26,093 cases, to the value of £20.349 million.		
Cash Losses		
Non-salary related losses reported by the Department totalled 2,324 cases to the value of £945,086.	945	2,309
Cash losses of pay, allowances and superannuation reported by the Department totalled 495 cases to the value of £488,744.	489	611
Cash losses of overpayments of benefits, grants and subsidies reported by the Department totalled 22,250 cases to the value of £17,952,137. Included in this figure is £16,289,729 relating to European Social Fund write offs which are treated as Administration Losses.	17,952	28,742
Claims Waived or Abandoned		
Claims Waived or abandoned by the Health and Safety Executive totalled 161 cases to the value of £92,319.	92	354
Stores Losses		
Vehicle related losses reported by the Department totalled 771 cases to the value of £265,422. This comprised 687 cases totalling £198,408 where DWP drivers of official vehicles were at fault and did not involve any third parties, with the remaining 84 cases totalling £67,014 where DWP drivers were at fault and a third party was involved.	265	458
Losses of accountable stores due to suspected crime totalled 3 cases to the value of £86,838	87	0
Other Losses		
Electronic Registered Files Project		
The Electronic Registered Files Project was commissioned in 2003 in order to meet the government modernisation target for all central government organisations to be able to store and retrieve their public records electronically by 2004. The aim of the project was to modernise the administration and management of registered files through the delivery of re-engineered processes supported by an Electronic Document and Record Management IT System.	404	–

	2007-08	2006-07
	£000	£000
A decision was made to suspend the project in 2007 due to the fact an additional Strategic Platform was being developed within another area of the organisation and this platform could be utilised for the electronic storage of registered files. The amount of £403,901 represents a constructive loss.		
Special Payments		
Total 40,311 cases, to the value of £13.053 million.		
Special Payments to staff and members of the public made by the Department totalled 7,290 cases to the value of £2,168,939.	2,169	2,400
Special Payments to members of the public (Customer cases) made by the Department totalled 33,003 cases to the value of £10,822,171.	10,822	11,498
Included in the above are:		
2,884 ex-gratia payments totalling £697,511 authorised to customers who have received duplicate payments of Disability Living Allowance or Attendance Allowance. The ex-gratia payments relate to customers who have been receiving duplicate payments and who are terminally ill.	698	–

42. 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 Pensions Regulator, the Health and Safety Commission and Executive, Remploy Ltd, the Independent Review Service for the Social Fund, the Office of the Pensions Ombudsman, Personal Accounts Delivery Authority, The Pensions Advisory Service and the Pension Protection Fund. 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 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.

43. Third-Party Assets

The CSA Client Funds account is accounted for on a receipts and payments basis. These are not departmental assets and are not included in the accounts. The assets held at the balance sheet date to which it was practical to ascribe monetary values comprised monetary assets, such as bank balances and monies on deposit, and listed securities. The latest available information in respect of the movement of balances on the Client Funds account through the year is as follows:

	2007-08	2006-07
	£000	£000
Receipts	689,538	621,979
Bank Interest	1,068	812
Total receipts	690,606	622,791
Less payments to:		
Persons with care	575,700	521,207
Secretary of State	105,124	93,391
Non-resident parents/employers	6,175	7,266
The Agency (CSA fees and court orders)	198	2
Total payments	687,197	621,866
Net (payments)/receipts	3,409	925
Balance as at 1 April	15,080	14,155
Balance as at 31 March	**18,489**	**15,080**

Statement of Balances at 31 March	**31 March 2008**	**31 March 2007**
	£000	£000
Funds awaiting clearance	10,499	8,179
Cleared funds awaiting distribution	7,990	6,901
Balance in bank account	**18,489**	**15,080**

44. Incorrect Payments

Background

It is the Department's objective to pay our customers the right benefits at the right time. Social Security legislation lays out the basis on which the Department calculates and pays benefits. The purpose of legislation is to provide a regulatory framework within which we have to operate to provide support for those in need within society. In many instances Parliament has targeted benefits to customer needs and circumstances to ensure an efficient use of overall resources. However, this introduces complexity and inherent risk of error associated with the calculation of awards and inevitably results in incorrect payments being made in a proportion of the workload.

This complexity has resulted in the Department administering over 27 benefits at more than 300 different rates to some 19 million people at any one time. Any benefit system that pays out money in response to given circumstances will always be vulnerable to fraud and a system that relies on human input will be more susceptible to both customer and official error. Despite these challenges, the Department correctly pays 97% of its benefit expenditure.

Overall performance

The Department uses statistically valid random sampling to estimate the overall level of fraud and error[1] with an acceptable precision. According to these estimates, fraud and error for 2007-08 resulting in overpayment of benefit stands at 2.1% (£2.7 billion) of benefit expenditure. Compared with 2000-01 when the DWP was formed, this, in percentage terms, is down by a third. This improvement has been achieved through a reduction in fraud from 2.1% to 0.6%, whilst customer error has remained constant at 0.7%, but official error has increased and currently stands at 0.8%. The Department is committed to reduce incidences of underpayment of entitlement that currently stands at 0.9%, (£1.1 billion).

The Department has improved the process of measuring its performance in fraud and error. In previous Resource Accounts the data used to estimate the levels of fraud and error in the continuously monitored benefits were drawn from the previous financial year. By improving its process for the Resource Accounts the Department has included data drawn from samples for the period up to the end of September 2007 and therefore reflects six months of "in-year" figures for the continuously measured benefits (Income Support, Jobseekers Allowance, Pension Credit and Housing Benefit) for the first time.

Figure 1: Estimated levels of overall fraud and error

	2007-08*		2006-07*		2000-01*** (global estimates first produced)	
Fraud	0.6%	£0.8bn	0.6%	£0.8bn	2.1%	£2.2bn
Customer error	0.7%	£0.9bn	0.8%	£1.0bn	0.7%	£0.7bn
Official error	0.8%	£1.0bn	0.8%	£0.9bn	0.4%	£0.4bn
Total overpayments	2.1%	£2.7bn	2.2%	£2.7bn	3.2%	£3.3bn
Total underpayments	0.9%	£1.1bn	0.9%	£1.0bn	0.7%**	£0.8bn**
Total expenditure	**£126.1bn**		**£119.8bn**		**£101.4bn**	

Note: Component estimates may not sum to totals due to rounding.

*For Resource Account purposes these figures are based on fraud and error National Statistics for continuously measured benefits (Income Support, Jobseeker's Allowance, Pension Credit and Housing Benefit) for periods covering Oct 06-Sept 07† and Oct 05-Sept 06 respectively but using benefit expenditure covering the financial year in question.

**Earliest figures available for underpayments is 2004-05

***The estimates for 2000-01 contain items that at the time were considered to be expenditure losses on DLA which were excluded from estimates from 2004-05 onwards as it was identified that this loss should not have been attributed to fraud and error. In 2004-05 this excluded expenditure was estimated to be around £0.7bn. It is not possible to accurately estimate what the level of fraud and error would have been in 2000-01 under the definition used from 2004-05 onwards. However a significant proportion of the £0.6bn estimate for fraud and error for DLA for 2000-01 is likely to have been due to the expenditure excluded from 2004-05 onwards. Therefore a direct comparison in the estimates should be treated with caution as some of the reduction in the estimates is likely to be due to the definitional change.

The benefits the Department pays can be grouped into three main categories:

- Income-related benefits
- Contributory benefits
- Disability benefits

[1]The Department defines **fraud** as those cases where customers deliberately claim money to which they are not entitled. It splits error into two categories: **customer error**, which occurs when customers provide inaccurate information and **official error** which occurs when officials process information incorrectly or fail to apply specific rules.

†All National Statistics reports on fraud and error are available at www.dwp.gov.uk/asd/asd2/fraud_error.asp

Income-related benefits

In seeking to ensure people on low incomes are supported, legislation requires that a claimants' financial status is taken into account. Some of these benefits are sensitive to the smallest of changes in the individual's circumstances and the Department relies on customers notifying these changes which can have a material impact on entitlement.

These income-related benefits are therefore most likely to be subject to error and fraud. For this reason the Department has concentrated its efforts to tackle fraud and error in these benefits. Income Support and Jobseeker's Allowance have been the focus of our efforts to tackle fraud and error since 1997-98, and in Pension Credit and Housing Benefit since 2002-03 through stretching performance targets including Public Service Agreement (PSA) targets.

Our best estimate is that the Department met its challenging 2002 PSA target to reduce fraud and error in Income Support and Jobseeker's Allowance by 50%.

Figure 2: Comparison between income-related benefits (continuously measured)

Income-related benefits		**Income Support**		**Jobseeker Allowance**		**Pension Credit**		**Housing Benefit**	
Expenditure	2007-08	£9.1bn		£2.2bn		£7.4bn		£15.7bn	
	2006-07	£9.1bn		£2.5bn		£6.9bn		£14.9bn	
within which are estimated:									
Total overpayments	2007-08	5.3%	£480m	5.0%	£110m	5.3%	£390m	4.8%	£750m
	2006-07	5.5%	£500m	4.8%	£120m	5.2%	£360m	5.3%	£780m
Total underpayments	2007-08	1.3%	£120m	0.5%	£10m	1.7%	£120m	1.4%	£220m
	2006-07	1.2%	£110m	0.5%	£10m	1.8%	£120m	1.4%	£210m
analysed between:									
Fraud overpayment	2007-08	2.9%	£260m	3.0%	£70m	1.5%	£110m	0.9%	£140m
	2006-07	2.3%	£210m	2.3%	£60m	1.6%	£110m	1.0%	£150m
Customer error overpayment	2007-08	0.9%	£80m	0.3%	£10m	1.3%	£100m	2.6%	£400m
	2006-07	1.8%	£160m	0.4%	£10m	1.3%	£90m	2.8%	£420m
Official error overpayment	2007-08	1.5%	£140m	1.7%	£40m	2.5%	£180m	1.3%	£210m
	2006-07	1.4%	£130m	2.1%	£50m	2.3%	£160m	1.4%	£210m
Number of claimants	2007-08	2.1m		0.9m		2.7m		4.0m	
Number of new claims	2007-08	0.9m		2.5m		0.3m		1.4m	
Number of changes processed	2007-08	6.6m		3.8m		2.9m		3.4m	

Note: Component estimates may not sum to totals due to rounding.

Income Support

Income Support is a complex benefit to process and maintain for several reasons. The customer must provide potentially a large amount of evidence. Any change in a customer's circumstance ranging from income and earnings to number, age and income (if applicable) of people in the household has to be reported and can affect the benefit they receive.

The Department first measured Income Support fraud and error in 1997-98. The estimates suggest that fraud and error has reduced from 9.2% to 5.3% in 2007-08 (some of the reduction is due to changes in measurement methodology over this period). Whilst focus on fraud has enabled reduction from 6.7% to 2.9%, customer error has stayed at 0.9% and official error has stayed at around 1.5%. In the short term, the Departmental focus will be on combating error and undeclared cohabitation fraud referred to as 'living together fraud', which is the largest type of fraud in Income Support.

Jobseeker's Allowance

The two elements of Jobseeker's Allowance (income-related and contributory) adds to its complexity along with the additional requirement to be available for work and provide evidence of job search activity.

Since 1997-98, when it was first measured, overall fraud and error in Jobseeker's Allowance has decreased from 13.2% to 5.0% of benefit expenditure (some of the reduction is due to changes in measurement methodology over this period), fraud is currently 3.0%, down from 8.4%, official error reduced from 4.2% to 1.7% and customer error from 0.7% to 0.3%.

Pension Credit

Pension Credit, introduced in October 2003, is a more recent benefit and has been a key element in the Government's strategy to tackle pensioner poverty. The information and verification required to process a claim for Pension Credit can result in relatively high official error.

Since 2003-04 when Pension Credit was first measured, the overall level of fraud and error has remained at around 5.3%. Fraud has increased from 1.3% to 1.5%, official error from 2.1% to 2.5%, and customer error has reduced from 2% to 1.3%.

The priority for Pension Credit error reduction will be to focus on cleansing of error that got into the benefit system while processes for the new benefit were being stabilised and ensuring new error does not get into the system.

Housing and Council Tax Benefit

The Department has responsibility for the administrative rules for Housing and Council Tax Benefits but the Social Security Administration Act 1992 determined that it is for local authorities to administer and decide on claims. Local authorities are therefore responsible for the calculation and payment of benefits to customers. Whilst the Department has no direct control over the benefits paid, it is committed to working with local authorities to help reduce fraud and error.

Overpayments resulting from fraud and error in Housing Benefit and Council Tax Benefit amount to £0.8bn in total, which is nearly one third of overall fraud and error. Fraud in Housing Benefit has reduced from 1.9% in 2002-03 when measurement was introduced, to 0.9% in 2007-08. Customer error has increased from 1.9% to 2.6% and official error from 1.1% to 1.3% in the same period.

Contributory and Disability Benefits

Contributory benefits are based on National Insurance contributions paid by the customer and other entitlement conditions such as unemployment, sickness, age, bereavement. Usually the claim extends over a longer period of time with fewer conditions affecting entitlement making them less susceptible to fraud and error.

Disability benefits can be contributory or non-contributory and are paid as a contribution towards extra costs associated with disability or severe health conditions. They are less susceptible to fraud but, as the entitlement depends on assessment of care and mobility needs which can change over time, are susceptible to error.

The estimated performance of all these benefits relies on a mixture of periodic reviews and modelling. Periodic reviews are "snapshot" exercises that estimate levels of fraud and error in a benefit in a particular year. Estimates from these exercises are for State Pension (April 2005-March 2006), Disability Living Allowance (April 2004-March 2005), Incapacity Benefit (April 2000-March 2001) and Carer's Allowance (April 1996-March 1997).

Figure 3: Comparison between contributory and disability benefits

Contributory & Disability benefits		Contributory Incapacit Benefit		Contributory State Pension		Disability Disability Living Allowance	
Expenditure	2007-08	£6.7bn		£57.5bn		£9.9bn	
	2006-07	£6.6bn		£53.7bn		£9.2bn	
within which are estimated:							
Total overpayment	2007-08	1.7%	£110m	0.2%	£110m	1.9%	£180m
	2006-07	1.7%	£110m	0.2%	£110m	1.9%	£170m
Total underpayment	2007-08	0.8%	£50m	0.2%	£90m	2.5%	£250m
	2006-07	0.8%	£50m	0.2%	£80m	2.5%	£230m
analysed between:							
Fraud overpayment	2007-08	0.1%	£10m	0.0%	£0m	0.5%	£50m
	2006-07	0.1%	£10m	0.0%	£0m	0.5%	£40m
Customer error overpayment	2007-08	0.2%	£20m	0.1%	£50m	0.6%	£60m
	2006-07	0.2%	£20m	0.1%	£40m	0.6%	£60m
Official error overpayment	2007-08	1.3%	£90m	0.1%	£70m	0.8%	£80m
	2006-07	1.3%	£90m	0.1%	£60m	0.8%	£70m
Number of claimants	2007-08	1.5m		11.8m		2.8m	
Number of new claims	2007-08	0.9m		0.7m		0.4m	
Number of changes processed	2007-08	0.6m		2.9m		0.8m	

Note: Component estimates may not sum to totals due to rounding.

Incapacity Benefit

Incapacity Benefit is payable to individuals who cannot work because of illness or disability. There are two key conditions for entitlement, medical evidence and National Insurance Contributions. Applying these and associated conditions leads to considerable administrative complexity.

The level of estimated overpayments due to official error doubled in 2004-05 to 1.5% although there has been a small decrease since. Levels of customer error and fraud are low at 0.2% and 0.1% of benefit expenditure respectively.

State Pension

Basic State Pension (SP) is considered easy to claim and relatively straightforward to determine and this is reflected in the low levels of overpayments due to fraud and error at 0.2% of benefit expenditure.

Disability Living Allowance

Entitlement to Disability Living Allowance depends on assessment of care and mobility needs which can change over time, and decisions require a judgement to be made by the Department's Decision Makers as to the rate of benefit. This decision process is susceptible to error.

The subjectivity of the decision process also contributes to the more significant levels of underpayments at 2.5%.

Strategies to reduce fraud and error

Although both fraud and error give rise to incorrect payments, they are fundamentally different and recognising this, the Department has developed discrete strategies to address them. The Department will ensure that these strategies and any future measures are considered in the light of value for money having regard to the cost of control, the impact on customers in terms of accessibility to and timeliness of payment and the incremental reduction in fraud and error.

Fraud Strategy

The Department's fraud strategy, 'A new contract for welfare: Safeguarding Social Security' was published in 1999. In October 2005 the Department published "Reducing Fraud in the Benefits System – Achievements and Ambitions" which reinforced its ongoing commitment to tackling fraud and outlined key initiatives in fraud prevention. In 2006-07 the Department's Targeting Fraud Campaign was re-launched with a tougher message "No Ifs, No Buts, Benefit Fraud is a crime". It was also refocused to be more personal, targeting benefit thieves, rather than targeting benefit fraud.

The Department's fraud strategy focuses on positive action to:

- prevent fraud before it happens;
- put off those who are thinking of committing fraud;
- detect fraud where it does happen; and
- punish the fraudsters.

Activities include Gateway and Case Interventions; focused claim reviews through interventions with customers to ensure compliance (Customer Compliance); data matching; providing a National Benefit Fraud Hotline; intelligence-led criminal investigations; and joint working with local authorities and other Government Departments. We are also starting to trial Voice Risk Analysis to identify potentially fraudulent claims.

By using these methods the Department has been successful in reducing fraud. For example in a pilot exercise, matching our data against Credit Reference Agency data it has been possible to identify people potentially living together as husband and wife – the single biggest cause of fraud in Income Support – which was previously not possible to do in a systematic way. The success of the trial has resulted in these checks being introduced nationally from May 2008.

The Department has also put in place a performance management regime to ensure local authorities adopt best practice in the administration of Housing Benefit and introduced a new output-based performance measure in April 2007. This sets each local authority an individual target for identifying reductions in benefit and encourages authorities to address customer error by preventing overpayments entering the system. These initiatives have underpinned the reduction in fraud over the past few years and the Department has an action plan that aims to achieve further sustainable reductions over the period to March 2011.

The Department's strategies have resulted in the lowest ever level of fraud, at 0.6% of benefit expenditure. It will become exceedingly difficult to secure significant year on year reductions in fraud given our achievements to date and the environment in which we operate. In a recently published report[2], the NAO noted that "*having reduced estimated levels of fraud to 0.6% of benefit expenditure, it is likely that the Department will find it increasingly difficult to secure significant further year on year reductions*".

Error Reduction Strategy and Benefit Simplification

Official Error

In January 2006, the Department established an Official Error Task Force with a specific remit to deliver reductions in official error in the most vulnerable benefits. Following its first year, during which the monetary value of official error targeted by the Task Force reduced by up to a third, the Task Force was extended to continue throughout 2007.

[2] NAO report, "Department for Work and Pensions: Progress in tackling benefit fraud" Report by the Comptroller and Auditor General, HC102 Session 2007-08, 23 January 2008.

In parallel, DWP developed its first comprehensive error reduction strategy "Getting Welfare Right: Tackling Error in the Benefit System", covering both customer and official error which was subsequently published in January 2007. This strategy which focuses on prevention, correction and compliance is projected to deliver a £1bn reduction in expenditure attributable to error by 2012. The strategy tackles both overpayments and underpayments resulting from error.

Specific initiatives to tackle official error in the recent period include enhancements to computer systems to stop common types of error; introduction of enhanced checking regimes; cleansing of error in the caseload by dedicated 'Action Teams'; reviewing and improving training, clarity of information on Departmental websites and customer communications.

Customer Error

Our customer group includes many who are elderly, vulnerable, sick, disabled and some who also have low literacy, a chaotic lifestyle and language and learning difficulties. For some of our customers therefore, cases which would in other circumstances be straightforward can become complex due to any combination of these personal characteristics. This can result in the customer making mistakes in providing us with accurate and timely information.

As part of the error reduction strategy, we have developed an external communications strategy maximising, strengthening and building on existing customer contact using opportunities such as telephone scripts, work focussed interviews fortnightly signing and notifications to remind them of changes that they need to report. Communications via leaflets to customers have also been reviewed to make the messages easier to understand and thus contribute to a reduction in customer error.

Benefit Simplification

The Department's strategy has two major strands, simplification of the benefit regulations and improving the service to customers. In 2005 a dedicated Benefit Simplification Unit was set up. Its aim is to drive forward simplifications across the benefits system, to challenge existing complexities and to ensure that the benefits system operates in a way that both customers and staff can understand better. For example, we have aligned the capital rules in Income Support and Jobseeker's Allowance to those in Housing Benefit. We also removed the need for customers to provide information on final earnings when claiming Income Support or Jobseeker's Allowance – thus speeding up the first payment of benefit and making it less complex to administer.

Fraud & Error estimates

The Department is particularly rigorous in its approach to estimating levels of fraud and error. The estimates are produced to the exacting standards of the Office of National Statistics (ONS). National Statistics protocol ensures their production is independent of Departmental and Ministerial influence. DWP has been acknowledged as being in the forefront of social security organisations world wide in its attempts to estimate a monetary value of fraud and error[3]. Our strategy for estimating the level of incorrect payments takes into account the value of the benefit, its risk profile and previous experience.

Statistical Uncertainty

The Department reviews a sample of claims and this sampling approach introduces statistical uncertainty into the figures. This uncertainty is quantified with 95% confidence interval. These give the range in which we can be 95% sure that the true value lies for each of the estimates presented. Further uncertainties arise from imperfections in the design and operation of the review process. Where possible these have been quantified and incorporated into the 95% confidence intervals.

[3] NAO report "International benchmark of fraud and error in social security systems" Report by the Comptroller and Auditor General, HC1387 Session 2005-06; July 2006.

Figure 4: Confidence intervals

Estimated overpayments	Percentage 2007-08	Amount 2007-08	Percentage 2006-07	Amount 2006-07
Overpayments				
Fraud	0.6% (0.5-0.9)	£0.8bn (0.6-1.1)	0.6% (0.4-0.9)	£0.8bn (0.5-1.1)
Customer Error	0.7% (0.6-0.9)	£0.9bn (0.7-1.2)	0.8% (0.7-1.0)	£1.0bn (0.8-1.2)
Official Error	0.8% (0.6-1.0)	£1.0bn (0.7-1.3)	0.8% (0.6-1.0)	£0.9bn (0.7-1.2)
Underpayment				
Fraud	0.0% (0.0-0.0)	£0.0bn (0.0-0.0)	0.0% (0.0-0.0)	£0.0bn (0.0-0.0)
Customer Error	0.5% (0.3-0.8)	£0.6bn (0.4-1.0)	0.5% (0.3-0.7)	£0.6bn (0.3-0.9)
Official Error	0.3% (0.2-0.5)	£0.4bn (0.3-0.6)	0.4% (0.3-0.5)	£0.5bn (0.4-0.6)
Total Overpayments	2.1% (1.8-2.5)	£2.7bn (2.3-3.1)	2.2% (1.9-2.6)	£2.7bn (2.3-3.1)
Total Underpayments	0.9% (0.6-1.2)	£1.1bn (0.8-1.5)	0.9% (0.6-1.2)	£1.0bn (0.7-1.4)

Note: Component estimates may not sum to totals due to rounding.

The table above shows the confidence intervals applied to each of the elements.[4] The 2006-07 figures quoted above have been updated from the 2006-07 published Resource Account to reflect the estimates published in December 2007 for the figures up to October 2006. These are more up to date and reflect the Department's aim to include six months of "in-year" figures for continuously measured benefits in the Resource Account for that year.

Other Benefits

Figure 5: Level of fraud and error in other benefits is as follows:

Benefit	Expenditure 2007-08	Fraud & Error 2007-08		Fraud & Error 2006-07	
	£bn	£m	%	£m	%
Carers Allowance	1.3	70	5.5	70	5.5
Instrument of Payment fraud	–	10	–	10	–
Interdependencies*	–	40	–	40	–
Council Tax Benefit	4.1	170	4.2	180	4.6
Other unreviewed	12.4	220	1.8	210	1.8

*These are overpayments due to knock-on effects between DLA overpayments and premiums for caring and disability on income-related benefits.

4 The detailed report is available at http://www.dwp.gov.uk/asd/asd2/fraud_error.asp

45. Entities within the Departmental boundary

The entities within the boundary during 2007-08 were as follows:

Supply – financed:	The Pension Service Jobcentre Plus Child Support Agency 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. Transfer of Functions and Restatements

Restatement of Balance Sheet and Operating Cost Statement at 31 March 2007.

Balance Sheet	Published accounts at 31 March 2007	CFER's Restate-ments	HSE Restate-ments	DRC Restate-ments	Other Restate-ments	Restated at 31 March 2007
	£000	£000	£000	£000	£000	£000
Fixed Assets						
Tangible fixed assets	937,677					937,677
Intangible assets	52,200					52,200
Investments	1,433					1,433
Debtors falling due after more than one year	1,533,357					1,533,357
Current assets						
Stocks and Work in progress	1,525					1,525
Debtors	2,197,647		639			2,198,286
Cash with paying agents	59,958					59,958
Cash at bank and in hand	217,530					217,530
Creditors falling due within one year	(3,766,154)					(3,766,154)
Creditors falling due after more than one year	(342,208)					(342,208)
Pensions Liability	(5,517)					(5,517)
Provisions for liabilities and charges	(1,101,166)					(1,101,166)
Net Liabilities	**(213,718)**		**639**			**(213,079)**
Taxpayers Equity						
General Fund	(225,684)		639			(225,045)
Revaluation Reserve	11,962					11,962
Government Grant Reserve	4					4
	(213,718)		**639**			**(213,079)**
Operating Cost Statement						
Administration costs						
Staff costs	3,133,657		2,058		6,378	3,142,093
Other administration costs	3,053,799		801		4,152	3,058,752
Gross Administration costs	**6,187,456**		**2,859**		**10,530**	**6,200,845**
Operating income	(150,948)	(10,222)	(2,654)			(163,824)
Net Administration costs	**6,036,508**	**(10,222)**	**205**		**10,530**	**6,037,021**
Programme costs						
Expenditure	121,818,259		(15)	(20,916)	(10,530)	121,786,798
Income	(923,839)	(5,408)		800		(928,447)
Net Programme costs	**120,894,420**	**(5,408)**	**(15)**	**(20,116)**	**(10,530)**	**120,858,351**
Net Operating cost	**126,930,928**	**(15,630)**	**190**	**(20,116)**	**–**	**126,895,372**

Reported figures at 31 March 2007 have been restated as a result of the following:

- CFER's Income has been recognised through the Operating Cost Statement with corresponding entries made to the General Fund, in accordance with the Financial Reporting Manual.
- HSE Restatements relate to functions transferred from Office of Civil Nuclear Security and UK Safeguards Office on 1 April 2007 under Machinery of Government changes.
- DRC Restatements relate to the transfer of the Disability Rights Commission to the Government Equalities Office in 2007-08 under Machinery of Government changes.
- Other restatements relate to the reclassification of costs between non staff and staff costs and the reclassification of the cost of capital charge relating to the FAS provision from Admin to Programme.

47. Post Balance Sheet Events

On 1 April 2008, the Pesticides Safety Directorate (an Executive Agency of DEFRA) transferred to the Health and Safety Executive becoming an internal agency of HSE. Also, on 1 April 2008, the Health and Safety Commission (HSC) and Health and Safety Executive (HSE) merged to form a single national regulatory body, the Health and Safety Executive, responsible for promoting the cause of better health and safety at work.

On 1 April 2008, the e-Delivery Team (eDT) joined the Department from the Cabinet Office. The team are responsible for the Government Gateway, an information technology application for identity verification and secure access to transactional online public sector services.

On 1 April 2008, the Government's digital channel, Directgov, transferred its operations from the Central Office of Information to the Department.

On 1 April 2008, The Pension Service and Disability & Carers Service merged to become the Pension, Disability & Carers Service, which will provide a more cohesive service to our customers.

On 5 June 2008, the Child Maintenance & Enforcement Commission was formed as a Crown Non-Departmental Public Body following Royal Assent. This body will replace the Child Support Agency.

On 1 April 2009, The Rent Service will transfer from the Department to the Valuation Office Agency, an executive agency of HM Revenue and Customs.

The Department's financial statements are laid before the Houses of Parliament by HM Treasury. FRS 21 requires the Department to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the Department's management to HM Treasury.

The authorised date for issue is 21 July 2008.

Glossary

Administration Cost Limit

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 that the Department is authorised to retain. The 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 the authorised limit must be surrendered to the Consolidated Fund. These are included within the Operating Cost Statement and disclosed separately in the 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.

Consolidated Fund Extra Receipts

Receipts realised or recovered by departments in the process of conducting services charged on public funds which are not authorised to be used to offset expenditure.

Contingencies Fund

This enables HM Treasury to make repayable cash advances to departments for urgent services, in anticipation of provision for those services by Parliament.

Cost of Capital Charge

A charge to reflect the opportunity cost of Government funding invested in assets of the Department and included to ensure that the full cost of services is reflected in departmental accounts. It is calculated at a rate of 3.5% (2006-07 3.5%) on the average net assets (capital employed) held by the Department over the year. The charge is included in the Operating Cost Statement and 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 on the 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. 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 the Summary of Resource Outturn.

Request for Resources (RfR)

The basic unit of Parliamentary control for which resources to the Department are granted. Each RfR within the Estimate represents an accruals based measure of expected expenditure within the Department for items which fall within that RfR. The Summary of Resource Outturn, the Operating Cost Statement and Note 2 analyse net resource outturn by RfR.

Contact details

Benefit advice line

For confidential advice for people with disabilities, and their carers and representatives, about Social Security benefits and how to claim them, ring free on:

Telephone – 0800 882200
Textphone – 0800 243355

Child Support

For general information and advice about Child Support matters ring:

Telephone – 0845 7133133 (calls charged at local rate)
Textphone – 0845 7138924

Pension benefits

For general enquiries about pension related benefits and services ring:

Telephone – 0845 6060265 (calls charged at local rate)
Textphone – 0845 6060285

Job opportunities

For people looking for work and job vacancies ring:

Telephone – 0845 6060234 (calls charged at local rate)
Textphone – 0845 6055255

Benefit Fraud Hotline

For reporting suspected benefit fraud, ring free on:

Telephone – 0800 854 440
Textphone – 0800 3280512

Further details of how to contact the Department can be found on the following website:
http://www.dwp.gov.uk/contact/

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