Presented pursuant to the Government Resources and Accounts Act 2000 c.20. s.6

# Department for Work and Pensions

# Resource Accounts 2006-07

LONDON: The Stationery Office
HC 875

10 September 2007
£17.00

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# Department for Work and Pensions

## Resource Accounts 2006-07

### (For the year ended 31 March 2007)

*Ordered by the House of Commons to be printed 24 July 2007*

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# Contents

# Annual Report

for the year ended 31 March 2007

### Scope

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

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

### Departmental Boundary

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

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

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. These contributory benefit costs, together with their associated costs of administration, are recovered by DWP from the NIF. See also Note 1.2.

***European Social Fund***

The European Social Fund (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.

All of the above are incorporated within the resource accounting boundary.

**Non-Departmental Public Bodies**

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

- The Independent Living Funds;
- The Pensions Regulator (TPR); and the
- Disability Rights Commission (DRC).

**Remploy Ltd**

The funding approved for Jobcentre Plus includes an amount for Remploy Ltd which represents grant in aid 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**

As part of the DWP wider Estate Strategy for its 1,600 building portfolio, the Department has approved a Programme to rationalise its Head Office outside central London from 25 buildings to 11. The Programme responds to the reducing DWP headcount and aligns with the report by Sir Michael Lyons "Towards better management of Public Sector assets" as well as the challenges set by SR04 and CSR07. The Programme commenced in September 2006 and will look to maximise the flexible use of space, in line with the "Working Without Walls" report by Office of Government Commerce, as teams are re-brigaded into retained sites. The first buildings were disposed of in April 2007 and the Programme is due to complete in 2009-10.

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 24 July 2007.

# 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 fully comply 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 is constituted of a majority of Non-Executive Members 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).

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

- Provide an independent advisory, support and constructive challenge role 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 25 for details of DB members.

### *Executive Team*

The ET supports the Head of Department in managing the Department and its businesses 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 and 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 delivery of the Departmental Change Programme. See page 24 for details of ET members.

The Executive Team is supported by six 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, performance and strategic risk.

- **Investment Sub-Committee**

  The purpose of the committee is to:

  - Provide senior management challenge to proposed investments by reviewing value for money as part of the investment appraisal process;
  - 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;
  - Agreeing significant changes to plans and scope;
  - Resolving cross-cutting issues and conflicting dependencies.

- **HR Strategy Sub-Committee**

  The purpose of the committee is to:

  - Develop strategic people priorities for DWP that deliver business goals, prioritise key areas for business and HR going forward and to ensure compliance with HR strategy across DWP.

- **Information Systems and Information Technology Strategy Sub-Committee**

  The purpose of the committee is to:

  - Own, develop and update the Department's IS/IT Strategy framework;
  - Facilitate and monitor the IS/IT Strategy, review its effectiveness, and ensure that risks to delivery are effectively managed.

- **Communications Strategy and Corporate Reputation Sub-Committee**

  The purpose of the committee is to:

  - Develop and maintain the DWP communication strategy, ensuring it is effectively implemented, with resources, risks and key outcomes regularly monitored and reviewed. A key part of this role is the regular monitoring and review of the Department's corporate reputation.

### *Departmental Audit Committee (DAC)*

The Departmental Audit Committee is a permanent sub-committee of the Departmental Board and is chaired by a Non-Executive DB member. The constitution of the Departmental Audit Committee was revised in 2006 and its membership is now entirely Non-Executive.

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 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. Following the establishment of the Department's shared services organisation a Shared Services Audit Committee has been established and is due to meet for the first time in August 2007.

### Non-Departmental Public Bodies (NDPBs)

The Department sponsors a wide range of Non-Departmental Public Bodies 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 accessed via 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.

The Department has 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 are 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.

### The Department's efficiency challenge

The 2004 Budget required the Department to hold core Departmental Expenditure Limits for 2006-07 and 2007-08 constant in nominal terms at the 2005-06 levels. The Department is required to reduce its workforce by 40,000 posts, by the end of March 2008, with redeployment of 10,000 posts to customer-facing roles and relocation of 4,000 posts from London and the South East to other regions, in response to the Lyons Review.

**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:** support the Department in delivery of objectives in a cost effective way.

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:

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.

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

3. **Child Support Agency** – administers the Child Support Scheme.

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

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

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.

Additionally, the Department is jointly responsible with the Department for Education and Skills for the Sure Start Unit, which develops policies and services to expand childcare and help parents into work in England.

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.

**Principal activities for achieving the Department's objectives in 2006-07**

During 2006-07 the Department:

- took forward policies, strategies and plans to meet the Government's agenda through the Welfare Reform Bill and the Pensions Bill;
- provided a range of services to both jobseekers and employers through more than 850 integrated Jobcentre Plus sites and in partnership with other organisations, contributing to high 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 Review and the Individual Budget pilots;
- 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 2006-07**

By the end of 2006-07, final outcomes had been reported for the majority of SR2002 targets, with final assessments on the employment-related targets to take place at the end of the current economic cycle.

For SR2004 targets, around half were ahead or on course at March 2007.

Significant aspects of performance were:

- The Welfare Reform Bill was introduced, containing a series of reforms that will enable people to escape poverty, fulfil their potential and strengthen their independence by moving into work.
- Modernisation of the Jobcentre Plus office network was substantially completed, offering customers a more professional and welcoming environment.
- The Pathways to Work pilots continued to show encouraging results and were extended to support 40 per cent of new and repeat Incapacity Benefit customers, helping them overcome barriers to work.

- The number of Ofsted-registered childcare places increased to 1,280,000, exceeding the required target of 1,213,000 by 2008, and the Childcare Approval Scheme had registered a total of 4,200 new approved carers, exceeding its target of 3,500 a year early.

- The Child Support Agency launched an Operational Improvement Plan to ensure more effective collection and payment of child support. Sir David Henshaw completed a fundamental redesign of child support.

- The Pensions Bill was published in November 2006, setting out long-term pensions reform which aims to make the State Pension fairer, simpler, more generous and more widely available.

- The White Paper *Personal Accounts: a new way to save* was published.

- The Pension Service had issued 18.8 million individuals with a pension forecast since April 2005. The target of issuing forecasts to 15.4 million individuals was reached in July 2006.

- The UN convention on Disability Rights was signed in March 2007.

- The Office for Disability Issues launched Equality 2025, the United Kingdom Advisory Network on Disability Equality, in December 2006; giving disabled people a central voice within Government, allowing them to influence the strategies, policies and services that affect their lives.

- Benefit simplification work resulted in improvements to the Social Fund scheme, the Housing Benefit scheme, and the treatment of income and capital across benefits.

- Fraud and error in Income Support and Jobseeker's Allowance halved between 1997 and 2006, and losses from official error were reduced through the action of the Official Error Task Force set up in January 2006.

- Investment in Information Technology enabled the introduction of 36 Jobcentre Plus Benefit Delivery Centres; online claiming for Carer's Allowance and Child Maintenance customers; making a claim for State Pension, Pension Credit, Housing Benefit and Council tax benefit in a single telephone call and job finding via www.jobcentreplus.gov.uk, which handled more than 4 million job searches every week, making it the UK's number one recruitment website.

- The Department had achieved a net headcount reduction of 24,816 posts, re-deployed 8,458 posts to customer-facing roles and relocated 3,981 posts away from London and the South East since April 2005.

- The Department had made financial savings amounting to £1,205 million, of which £774 million were cashable savings, since April 2005.

- For the fifth year running, the Department made the biggest contribution to the Office for Government Commerce targets to deliver value-for-money gains. In 2005-06, the Department's savings of £471 million were nearly 39% of the total of £1,221 million reported by all departments, although its expenditure represented only 28% of the total.

- In the first ever 'Whitehall and Westminster World' Civil Service Awards – designed to celebrate excellence in the Civil Service – the Department won both the outstanding team and outstanding individual award.

- A gold standard in the *Opportunity Now* gender benchmarking exercise and a gold award in the *Race for Opportunity* benchmarking were secured along with second place in the top ten public sector performers. These employer-led awards provided independent recognition of the Department's commitment to gender and race equality.

- The Department, along with the Department for Environment, Food and Rural Affairs, was recognised as 'leading the pack' by the Sustainable Development Commission for the continued progress of sustainable development initiatives.

## 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.

### Financial Position (Balance Sheet)

The Balance Sheet is dominated by debtors of £3.7 billion and creditors of £4.1 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 £937.7 million which are comprised mainly of leasehold improvements of £524.1 million and IT related assets of £318.8 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 £48.9 million and software both under development and in use amounting to £269.9 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 £60.1 million.

### 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 £126.9 billion (2005-06 £123.1 billion).
- Gross payments of social security benefits administered by the Department amounting to £121.8 billion (2005-06 £117.8 billion) (see note 13).
- Included within Gross payments are payments made by the Department of £0.7 billion (2005-06 £0.5 billion) on behalf of the European Social Fund.

**Reconciliation of resource expenditure between Estimates, Accounts and Budgets**

| | 2006-07 £000 |
|---|---:|
| **Net Resource Outturn (Estimates)** | **64,241,167** |
| Adjustments to remove: | |
| Provision voted for earlier years | – |
| Adjustments to additionally include: | |
| Non-voted expenditure in the OCS | 66,554,170 |
| Consolidated Fund Extra Receipts in the OCS | (1,938) |
| Other adjustments | (3,862,471) |
| **Net Operating Cost (Accounts)** | **126,930,928** |
| Adjustments to remove: | |
| Capital grants | (18,031) |
| Capital grants financed from the Capital Modernisation Fund | – |
| European Union income and related adjustments | – |
| Voted expenditure outside the budget | – |
| Adjustments to additionally include: | |
| Other Consolidated Fund Extra Receipts | – |
| Resource consumption of non-departmental public bodies | 4,357 |
| Unallocated resource provision | – |
| Other adjustments | |
| **Resource Budgets Outturn (Budget)** | **126,917,254** |
| **Of which:** | |
| Departmental Expenditure Limits (DEL) | 7,589,307 |
| Annually Managed Expenditure (AME) | 119,327,947 |

**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 2006-07 the Department met all of its control totals and these are detailed below together with explanations where these are over 10%:

- Resource Departmental Expenditure Limit (DEL) – Outturn was £7.6 billion, within 5.0% of the Estimate.
- Capital DEL – Outturn was £0.2 billion which was 8.6% below the Estimate.
- Near Cash in Resource DEL – Outturn was £7.3 billion, within 5.7% of the Estimate.
- Administration Cost Limit – Outturn was £5.9 billion, within 3.0% of the Estimate.
- Net Cash Requirement – Outturn was £62.9 billion, within 5.0% of the Estimate.
- In addition the outturn on each Request for Resources (RfR) was within its control total as follows:

  RfR1 (Children) – Outturn within 1.6% of Estimate;

  RfR2 (Working Age) – Outturn within 2.6% of Estimate;

  RfR3 (Pensions) – Outturn within 1.6% of Estimate;

RfR4 (Disability) – Outturn within 0.6% of Estimate;

RfR5 (Corporate) – Outturn within 10.5% of Estimate; the main element of this relating to re-phasing expenditure on the Department's Early Release Fund and Corporate Change Programme.

- The total voted net resource outturn was £64.2 billion, within 2.1% of the Estimate (£65.6 billion). The under spend of £1.3 billion is made up of £0.3 billion DEL and £1.0 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** |
|---|---|---|---|---|
| 2A – Administration | 3,008,749 | 2,867,738 | 141,011 | Underspend on Jobcentre Plus Change Programme. |
| 2B – Employment Programmes | 923,704 | 793,679 | 130,025 | Lower than anticipated spending on Employment Programmes. |
| 2E – Capital Grants | 8,476 | 5,102 | 3,374 | The Estimate provides for Capital Charge costs associated with Remploy, whereas the outturn figure for capital charges is Nil. |
| 2F – The Rent Service Executive Agency | 40,231 | 35,779 | 4,452 | The underspend is due to activity that was re-phased in the Department's Mid Term Review to 2007-08 and therefore the costs do not appear in the 2006-07 outturn. |
| 2H – European Social Fund Payments in advance of receipts | 32,700 | 38,420 | (5,720) | The variance is made up of two parts. There was an underspend on capital charges of £15m, which was offset by an overspend of £20m on programme/exchange losses. |
| 2I – Employment Programmes | 37,047 | 63,824 | (26,777) | This overspend needs to be considered with the £130m underspend on employment programmes in 2B, which nets to an overall underspend of £103m. The underspend on employment programmes was mainly due to expected increases in activity levels on new programmes not occurring as quickly as anticipated. |
| 2L – Capital Grants to Local Authorities | 2,895 | 5 | 2,890 | The estimate includes an amount of £2,890k for expected expenditure in relation to the Capital Modernisation Fund, whereas no actual expenditure has been incurred. |
| 2Q – Income Support | 9,352,429 | 8,757,161 | 595,268 | The final forecast was increased to allow for potential increased spend arising from the delayed migration to Child Tax Credit. However, the level of increased spend estimated did not arise. The outturn is higher than original Budget 06 forecast but lower than the revised Spring Supplementary position. |
| 2R – JSA | 2,051,047 | 1,962,917 | 88,130 | Levels of spending are dependant on the unemployment count. The underspend has arisen due to a falling claimant count late in the year, compared with an increase forecast at the Spring Supplementary. |

| Estimate Line | Limit £000 | Outturn £000 | Variance (Over)/ Under £000 | Explanation of variance |
|---|---|---|---|---|
| 2T – Job Grant | 35,627 | 40,278 | (4,651) | Overspend is due to the increase in rates of employment subsequent to when the budget was set. |
| 2V – Housing and Council tax benefit capital charge | 3,277 | (12,498) | 15,775 | Higher than expected Housing Benefit related creditor balances at 31 March 2007 resulted in a capital credit being incurred in 2006-07. |
| 2W – HB/CTB | 13,014,986 | 13,108,544 | (93,558) | The overspend has arisen from a combination of an increase in social sector rents in England and increases in the levels of unemployment than predicted in the original Budget 06 forecast. |
| 2X – RR | 5,364,658 | 5,236,939 | 127,719 | The underspend has arisen from a forecast increase in the levels of expenditure not occurring. |
| 3A – Administration | 324,201 | 287,732 | 36,469 | Underspend on The Pension Service Change Programme. |
| 3C – IS/Pension Credit | 7,105,779 | 6,958,418 | 147,361 | Underspend on Pension Credit relating to fewer new claims than forecast. |
| 4C – AA<br>4D – DLA<br>4E – CA | 4,181,144<br>9,183,647<br>1,215,750 | 4,151,683<br>9,160,460<br>1,191,943 | 29,461<br>23,187<br>23,807 | Outturn is higher than the original Budget 06 forecast but lower than revised forecasts made for the Spring Supplementary. |
| 5A – Administration | 835,642 | 748,270 | 87,372 | Underspend largely caused by re-phasing of expenditure on Early Release Fund and Corporate Change Programme. |

### 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 £125.7 billion compared to a cash outflow in 2005-06 of £124.0 billion. The change is mainly due to the increase in net operating costs of the Department from £123.1 billion to £126.9 billion.

The £231.8 million net cash outflow on investing activities consists mainly of expenditure on fixed asset additions of £211.1 million, the major items being software development, classified as Assets under Construction and Leasehold Improvements.

There has been a decrease in receipts due to the Consolidated Fund which has arisen as a result of a drop in exchange rate gains received in 2006-07 in relation to the European Social Fund, together with a reduction in the value of ESF claims settled by the EU which resulted in a reduction of Consolidated Fund payments required to be made to HM Treasury.

### 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 and does not contribute to the overall objectives. 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:

- Machinery of Government transfer of the Appeals Service to the Department for Constitutional Affairs with effect from 1 April 2006;
- Transfer of rail safety functions from HSE to the Office of the Rail Regulator from 1 April 2006;
- Analytical review of account codes following the implementation of a new general ledger system; and
- HSE accounting for certain expenditure items on an accruals basis for the first time in 2006-07.

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

**Investment**

The Department's Investment Strategy (www.dwp.gov.uk/publications/dwp/2005/invest_strategy.pdf) is primarily focused on bringing about significant improvements in both customer service and operational efficiencies, with investment incurred principally in two areas.

The first is to modernise business processes, enabled by more efficient, fit for purpose information technology and information systems. Business transformation continues to progress, standardising customer contact and processing work and enabling the Department to achieve economies of scale. An example of this is the Finance and HR services which have been transformed with a new shared services organisation established from 1 September 2006 and the implementation of the Department's Resource Management system which has placed much greater emphasis on employee self service, reducing back-office staff and enabling staff to be released to frontline work.

The second involves strategic investments in estates infrastructure, which provides a far more welcoming environment for those clients who receive their customer service in person. A programme to deliver a fully integrated work and benefit service through a network of new and completely refurbished Jobcentre Plus offices was largely completed by the end of March 2007.

Strategic investment is managed through a number of mission-critical projects with progress being monitored on a monthly basis. Corporate Governance arrangements include a Departmental Investment Committee, which scrutinises proposed and revised investments and a Change Delivery Committee, which monitors the progression of projects at the Critical Design Review Stage.

**Investment plans for the 2004 Spending Review period (SR04)**

| | 2005-06 | 2006-07 | 2007-08 | SR 04 |
|---|---|---|---|---|
| **Level of Investment (£ million)** | 1,056 | 892 | 1,092 | 3,040 |

(Note: Includes all Departmental Capital forecasts and Change Programme "One off" resource forecasts as at 31st March 2007.)

**Departmental reporting cycle**

The DWP Main Estimate for 2006-07 was published in May 2006 as part of the Central Government Supply Estimates 2006-07 Main Supply Estimates (HC 1035). The Department also applied for Winter and Spring Supplementary Estimates, details of which are available in the Central Government Supply Estimates 2006-07 Winter Supplementary Estimates (HC 2) and the Central Government Supply Estimates 2006-07 Spring Supplementary Estimates (HC 293).

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 fifth Autumn Performance Report 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 7105), which was published in May 2007, presented the Department's expenditure plans for 2007-08, outturn expenditure for 2005-06 and estimated outturn for 2006-07. The Departmental Report can be found at: www.dwp.gov.uk/publications/dwp/2007/dr07.

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

### Debt Qualification

The Department carried out significant work in 2006-07 on the three aspects of the debt qualification: existence, valuation and completeness.

To address the existence and valuation of debt, the introduction in 2005-06 of the new Debt Manager system to provide a full audit trail to new and recent debts was complemented by the articulation of a benefit overpayment debt accounting policy stating, amongst other things, that the Department regards debt notification letters as evidence of the existence of a debt. In 2005-06 NAO confirmed that Debt Manager provides a clear audit trail from the debt balance to underlying debt cases. 2006-07 work focused on providing NAO with samples of existing and new cases to confirm these debts existed at the balance sheet date and were correctly valued, by reference to the debt notification letter and the reflection of subsequent recoveries over the life of the debt.

A completeness issue arose during 2005-06 when the Department migrated existing debt cases from its legacy debt systems to Debt Manager. The Department took the opportunity to ensure the migrated debt cases were accurate. This involved a significant data cleansing exercise which meant resources were not available to process new debt arising in 2005-06 in a timely manner. This resulted in a significant back log of cases which were not included in the debt stock at 31 March 2006. The Department designed and implemented a recovery plan in 2006-07 that has addressed this problem.

In 2006-07 Risk Assurance Division carried out work to establish the extent of unidentified debt across a number of Pension Service and Disability and Carers Service offices in order to provide an estimate of the extent of unidentified debt within these Agencies, as well as providing the basis for investigating root causes as to why cases are not investigated and referred to Debt Centres in a timely manner for inclusion in the debt stock. In addition, initiatives by the delivery services / client groups to address the unidentified and unreferred debt issue were reflected in increased debt referrals in 2006-07.

## Public Interest and Other

### Employment of disabled persons

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 through 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 2007 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 into 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%.

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 85.80% (2005-06 89.80%) of bills were paid within this standard. The introduction of a new accounting system near the end of 2005-06, together with the contracting out of invoice payment to a third party service provider, had a significant impact on prompt payment during the early part of the year but payments improved as robust processes were established and put into practice in the latter part of the 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 £23,271.49 arising and payable by the Department during the year (2005-06 £1,924.45). These costs are included as Interest Charges within other administration costs, which are reported at Note 9.

**Introduction of the Euro**

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

**External Audit**

These accounts have been audited by the Comptroller and Auditor General in accordance with the Government Resources and Accounts Act 2000. His certificate and report appear on pages 37 to 43.

The cost of audit work was £2,407,000 (2005-06 £1,933,000), which solely related to statutory audit services. This included actual costs of £94,000 (2005-06 £83,000) (see Note 9) and notional costs of £2,313,000 (2005-06 £1,850,000) (see Note 11).

Value for Money studies are ongoing in the following areas:

- Workless Households
- Progress in Tackling Benefit Fraud
- Increasing Employment Rates for Ethnic Minorities
- Jobcentre Plus Rollout

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;
- 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 23.

### 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:

| Tranche | Percentage of Staff |
|---|---|
| Top | 25 |
| Middle | 65–70 |
| Lower | 5–10 |

(iv) The terms of reference for the Pay Committee are:

- to consider line managers' recommendations for tranche allocation and award of bonus;
- to assess the relative contribution of SCS members; and
- to make final pay decisions.

The Pay Committees are comprised of:

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

Pay Band 1 and 2 Pay Committees
- Leigh Lewis (Chair)
- Lesley Strathie
- Phil Wynn Owen
- Adam Sharples
- Paul Jenkins
- Stephen Geraghty
- Joe Harley
- Kevin White
- John Codling
- Alexis Cleveland
- Mike Sommers (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 bonus 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) Bonus payment.

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

(i) Departments have discretion to vary the level of award within each tranche for individual staff. However, it is a central requirement that awards must enhance progression for those lower down the pay bands with similar levels of performance to those higher up the pay bands. Base pay awards reward value or contribution which is determined by:

- Competence the individual brings to the job;
- Challenge of the job;
- Sustained performance, as an indicator of future performance;
- Progression based on individual growth in value or contribution; and
- Any emerging pay anomalies.

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

Increases will be awarded on a continuum basis for Pay Band 1 for each tranche, according to the precise position on the pay range. Precise details of the specific parameters for the Department's base pay will be available after the relative assessment profile has been produced.

(ii) Bonuses are intended to reward and provide incentives for in-year delivery of key results. The bonus 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 bonus for 2007 will be £3,000. Bonuses will be awarded to between 60%-75% of SCS staff. Bonuses will be awarded on a flat rate basis. These will generally reflect three different levels of achievement in each pay band.

Departments have flexibility to award bonuses to staff in any of the tranches. However bonuses are intended to reward excellent achievement so these will mostly go to those in the top tranche and to the strongest performers in tranche 2. Line managers will be asked to suggest an Outstanding, High, Medium or no bonus award for each SCS member.

People not in high profile posts should be given equal opportunity in relative assessment and bonus 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, the 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) 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 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<br>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 | N/A | N/A |
| Stephen Geraghty | 01/04/2005 | 31/03/2008 | 1.00 |
| 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 | N/A | N/A |
| Joe Harley | 28/07/2004 | 27/07/2009 | 2.33 |
| Simon MacDowall | 24/05/2006 | 01/10/2006 | N/A |
| Paul Jenkins | 02/04/2002 | 31/07/2006 | N/A |
| Richard Heaton | 02/01/2007 | N/A | N/A |
| Sue Garrard | 05/02/2007 | N/A | N/A |
| Ken Young | 02/10/2006 | 04/02/2007 | N/A |

Note:

- Ken Young took over from Simon MacDowall on an interim basis until Sue Garrard's appointment.
- Richard Heaton replaced Paul Jenkins. There was no interim replacement between 01/08/2006 and 01/01/2007.

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 ***

One member of the Executive Team received a benefit in kind entitlement in the form of payment for a chauffeur-driven car. The amount involved is 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 |
| James Purnell MP | Minister of State (Minister for Pensions Reform) from 5 May 2006 |
| Mr Stephen Timms MP | Minister of State (Minister for Pensions Reform) to 5 May 2006 |
| Mr Jim Murphy MP | Minister of State (Minister for Work) from 5 May 2006 |
| Rt Hon Margaret Hodge MP MBE | Minister of State (Minister for Employment and Welfare Reform) to 5 May 2006 |
| Lord McKenzie of Luton MP | Parliamentary Under-Secretary (Lords) from 11 January 2007 |
| Lord Hunt of King's Heath OBE | Parliamentary Under-Secretary (Lords) to 5 January 2007 |
| Mr James Plaskitt MP | Parliamentary Under-Secretary (Commons) |
| Mrs Anne McGuire MP | Parliamentary Under-Secretary (Minister for Disabled People) |

With effect from 28 June 2007 the following ministerial changes took place:

- Peter Hain replaced John Hutton as the Secretary of State for Work and Pensions.
- Caroline Flint and Mike O'Brien replaced James Purnell and Jim Murphy as Ministers of State.
- Barbara Follett was appointed as Parliamentary Under-Secretary (Commons).

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

| | |
|---|---|
| Leigh Lewis* | Permanent Secretary and Head of Department |
| Phil Wynn Owen | Director General, Strategy and Pensions |
| Lesley Strathie | Jobcentre Plus Chief Executive |
| Alexis Cleveland* | The Pension Service Chief Executive |
| Stephen Geraghty | Child Support Agency Chief Executive |
| Terry Moran | Disability and Carers Service Chief Executive |
| Adam Sharples | Director General for Work, Welfare and Equality |
| John Codling* | Finance Director General |
| Kevin White | Human Resources Director General |
| Joe Harley | DWP IT Director General and Chief Information Officer |
| Simon MacDowall | Communications Director to 1 October 2006 |
| Ken Young | Communications Director from 2 October 2006 to 4 February 2007 |
| Sue Garrard | Communications Director from 5 February 2007 |
| Paul Jenkins | Head of Law, Governance and Special Policy Group – The Solicitor to 31 July 2006 |
| Richard Heaton | Solicitor and Director-General of the Law, Governance and Special Policy Group From 2 January 2007. |

On 11 June 2007 Kevin White left the Department and his role is temporarily being covered by Jane Saint until such times as a permanent appointment is made.

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

**Departmental Board ***

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

| | |
|---|---|
| Michael Sommers | Non-Executive Member |
| John Cross | Non-Executive Member |
| Paul Gray | Non-Executive Member to 21 July 2006 |
| Adrian Fawcett | Non-Executive Member from 2 January 2007 |
| Helen Stevenson | Non-Executive Member from 2 January 2007 |

**Company Directorships ***

Adrian Fawcett is the Chief Executive Officer and a company director of General Healthcare Limited. Adrian was also a company director of Avebury Group Limited until 30 March 2007 and Punch Taverns PLC until 30 March 2007.

Helen Stevenson is the Chief Marketing Officer at Yell Group.

John Cross serves on the following Boards:

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

**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.

## Remuneration *

| | 2006-07 | | 2005-06 |
|---|---|---|---|
| | Salary | Full Year Equivalent | Salary |
| **Ministers** | **£** | **£** | **£** |
| Rt Hon John Hutton MP<br>*Secretary of State* | 75,963 | 75,963 | 24,967<br>(FYE 74,902) |
| James Purnell MP<br>*Minister of State (Pensions Reform)* (from 5 May 2006) | 33,486 | 39,307 | – |
| Mr Stephen Timms MP<br>*Minister of State* (to 5 May 2006) | 6,476 | 39,307 | 32,378<br>(FYE 38,854) |
| Mr Jim Murphy MP<br>*Minister of State (Work)* (from 5 May 2006) | 33,486 | 39,307 | – |
| Rt Hon Margaret Hodge MP MBE<br>*Minister of State* (to 5 May 2006) | 6,476 | 39,307 | 32,378<br>(FYE 38,854) |
| Lord McKenzie of Luton MP<br>*Parliamentary Under-Secretary (Lords)* (from 11 January 2007) | 25,267 | 105,035 | – |
| Lord Hunt of King's Heath OBE<br>*Parliamentary Under-Secretary (Lords)* (to 5 January 2007) | 87,239 | 104,841 | 91,815<br>(FYE 102,000) |
| Mr James Plaskitt MP<br>*Parliamentary Under-Secretary of State (Commons)* | 29,909 | 29,909 | 26,320<br>(FYE 29,491) |
| Mrs Anne McGuire MP<br>*Parliamentary Under-Secretary of State*<br>(Minister for Disabled People) | 29,909 | 29,909 | 24,576<br>(FYE 29,491) |

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

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 (£60,277 from 1 November 2006, £59,686 from 1 April 2006, 2005-06 £59,095) 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.

| | 2006-07 | | | | | 2005-06 |
|---|---|---|---|---|---|---|
| **Officials *** | **Salary Including Bonus** | **Allowances and Taxable Expenses** | **Benefits in Kind*** | **Total** | **Full Year Equivalent (FYE)** | **Total** |
| | **£000** | **£000** | **(to nearest £100)** | **£000** | **£000** | **£000** |
| Leigh Lewis<br>*Permanent Secretary* | 168 | – | 5,400 | 173 | 173 | 57<br>(FYE 159) |
| Phil Wynn Owen | 130 | – | – | 130 | 130 | 106 |
| Lesley Strathie | 145 | – | – | 145 | 145 | 125<br>(FYE 137) |
| Alexis Cleveland | 141 | 27 | – | 168 | 168 | 163 |
| Stephen Geraghty | 194 | 6 | – | 200 | 200 | 176 |
| Terry Moran | 109 | – | – | 109 | 109 | 40<br>(FYE 106) |
| Adam Sharples | 132 | – | – | 132 | 132 | 124 |
| John Codling | 160 | 42 | – | 202 | 202 | 156 |
| Kevin White | 130 | 42 | – | 172 | 172 | 170 |
| Joe Harley | 230 | 24 | – | 254 | 254 | 249 |
| Simon MacDowall<br>(to 1 October 2006) | 63 | 12 | – | 75 | 143 | 135 |
| Ken Young<br>(2 October 2006 – 4 February 2007) | 27 | 2 | – | 29 | 86 | – |
| Sue Garrard<br>(from 5 February 2007) | 19 | – | – | 19 | 125 | – |
| Richard Heaton<br>(from 2 January 2007) | 28 | – | – | 28 | 113 | – |
| Paul Jenkins<br>(to 31 July 2006) | 48 | – | – | 48 | 128 | 123 |

* The taxable benefit in kind relates to the use of a chauffeur-driven car.

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

*Salary*

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

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

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

## Pension Benefits *

| Ministers * | Total accrued pension at age 65 as at 31/03/07 | Real increase in pension at age 65 | CETV at 31/03/07 | CETV at 31/03/06 | Real increase in CETV |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Rt Hon John Hutton MP<br>*Secretary of State* | 5-10 | 0-2.5 | 81 | 65 | 6 |
| James Purnell MP<br>*Minister of State* (from 5 May 2006) | 0-5 | 0-2.5 | 11 | 5 | 2 |
| Mr Stephen Timms MP [1]<br>*Minister of State* (to 5 May 2006) | 5-10 | 0-2.5 | 70 | 69 | 0 |
| Mr Jim Murphy MP<br>*Minister of State* (from 5 May 2006) | 0-5 | 0-2.5 | 25 | 18 | 2 |
| Rt Hon Margaret Hodge MP MBE<br>*Minister of State* (to 5 May 2006) | 5-10 | 0-2.5 | 82 | 81 | 1 |
| Lord McKenzie of Luton MP<br>*Parliamentary Under-Secretary (Lords)*<br>(from 11 January 2007) | 0-5 | 0-2.5 | 31 | 27 | 2 |
| Lord Hunt of King's Heath OBE [1]<br>*Parliamentary Under-Secretary (Lords)*<br>(to 5 January 2007) | 10-15 | 0-2.5 | 116 | 101 | 6 |
| Mr James Plaskitt MP<br>*Parliamentary Under-Secretary of State (Commons)* | 0-5 | 0-2.5 | 10 | 5 | 3 |
| Mrs Anne McGuire MP<br>*Parliamentary Under-Secretary of State*<br>*(Minister for Disabled People)* | 5-10 | 0-2.5 | 65 | 55 | 4 |

[1] Cash Equivalent Transfer Value (CETV) restated from prior year on the advice of the House of Commons Pensions Unit.

**Ministerial pensions**

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended). Those Ministers who are Members of Parliament 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.

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. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 26.8% of the ministerial salary.

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

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)**

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

**The real increase in the value of the CETV**

This is the increase in accrued pension due to the Department's contributions to the PCPF, and excludes increases due to inflation and contributions paid by the Minister and is calculated using common market valuation factors for the start and end of the period.

| **Officials *** | **Accrued pension at age 60 as at 31/03/07 and related lump sum** | **Real increase in pension and related lump sum at age 60** | **CETV at 31/03/07** | **CETV at 31/03/06** | **Real Increase in CETV** |
|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Leigh Lewis [2]<br>*Permanent Secretary* | 70-75 plus<br>215-220 lump sum | 0-2.5 plus<br>5-7.5 lump sum | 1,568 | 1,479 | 42 |
| Phil Wynn Owen [2] | 35-40 plus<br>115-120 lump sum | 5-7.5 plus<br>17.5-20 lump sum | 612 | 507 | 99 |
| Lesley Strathie [2] | 55-60 plus<br>175-180 lump sum | 2.5-5 plus<br>12.5-15 lump sum | 1,084 | 980 | 74 |
| Alexis Cleveland | 45-50 plus<br>140-145 lump sum | 0-2.5 plus<br>5-7.5 lump sum | 928 | 874 | 32 |
| Stephen Geraghty [1] | 10-15 | 0-2.5 | 198 | 166 | 23 |
| Terry Moran [2] | 35-40 plus<br>105-110 lump sum | 0-2.5 plus<br>2.5-5 lump sum | 552 | 528 | 19 |
| Adam Sharples | 40-45 plus<br>130-135 lump sum | 0-2.5 plus<br>5-7.5 lump sum | 866 | 808 | 39 |
| John Codling | 55-60 plus<br>175-180 lump sum | 7.5-10 plus<br>27.5-30 lump sum | 1,196 | 976 | 193 |
| Kevin White | 45-50 plus<br>135-140 lump sum | 0-2.5 plus<br>2.5-5 lump sum | 1,009 | 957 | 23 |
| Joe Harley [1] | 0-5 | 0-2.5 | 83 | 51 | 27 |
| Simon MacDowall [1]<br>(to 1 October 2006) | 10-15 | 0-2.5 | 207 | 176 | 24 |
| Ken Young<br>(from 2 October 2006<br>to 4 February 2007) | 15-20 plus<br>50-55 lump sum | 0-2.5 plus<br>0-2.5 lump sum | 252 | 250 | 9 |
| Sue Garrard [1]<br>(from 5 February 2007) | 0-5 | 0-2.5 | 4 | 0 | 3 |
| Richard Heaton<br>(from 02 January 2007) | 15-20 plus<br>55-60 lump sum | 0-2.5 plus<br>5-7.5 lump sum | 259 | 223 | 26 |
| Paul Jenkins<br>(to 31 July 2006) | 40-45 plus<br>125-130 lump sum | 0-2.5 plus<br>2.5-5 lump sum | 758 | 726 | 16 |

[1] Opted to join the Premium Scheme.

[2] CETV restated from prior year on the advice of the Authorised Pensions Administration Centre.

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

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

**Civil Service Pensions (CSP)**

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

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

The Partnership Pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% 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 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

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

**Cash Equivalent Transfer Values**

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

**Real increase in CETV**

This reflects the increase in CETV effectively funded by the employer. It 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.

**Non-Executives ***

Fees amounting to £55,000 (2005-06 £43,000) were paid to the Non-Executive Board members as follows:

| | 2006-07 Total Fees | 2005-06 Total Fees |
|---|---|---|
| | £000 | £000 |
| Michael Sommers | 25 | 23 |
| John Cross | 22 | 20 |
| Paul Gray (to 21 July 2006) | – | – |
| Adrian Fawcett (from 2 January 2007) | 4 | – |
| Helen Stevenson (from 2 January 2007) | 4 | – |

***Leigh Lewis***
**Accounting Officer**

20 July 2007

* 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 the Accounting Officers' Memorandum issued by HM Treasury and published in *Government Accounting*.

# Statement on Internal Control

**Scope of Responsibility**

As Principal Accounting Officer, I am responsible for maintaining a sound System of Internal Control that supports the achievement of the 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 Government Accounting.

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.

The Department's Executive Team (ET), of which I am Chair, has collective responsibility for the leadership and strategic management of the Department including its Agencies in line with Ministers' objectives and the Department's Public Service Agreement (PSA) targets. The strategic management of the Department includes designing and securing a sound governance framework and system of internal control and ensuring compliance with them.

My accountabilities and those of senior directors within the Department are formally recorded in the Departmental Framework which was revised in April 2007 to more clearly reflect our collective corporate responsibilities. To further strengthen accountability, I issued Letters of Designation to each of my ET colleagues in March 2007, which clarify both their corporate and business specific accountabilities in greater detail. To reinforce further the overall control regime within the Department I hold regular Performance Accountability Reviews with each member of ET and their top team. These reviews, which take place three times a year with each ET member and their team, provide a forum for an in-depth review of performance against objectives.

The *Departmental Delivery Plan 2005-08* sets out the high-level plans for achieving the Department's PSA targets and securing the efficiencies which were agreed as part of the 2004 Spending Review (SR2004). The Delivery Plan captures strategic risks, financial allocations and underpinning planning assumptions. *The Departmental Business Plan 2007-2008* sets out the progress that was made in 2006-07 and the significant challenges that we aim to meet in 2007-08.

The Department's five-year strategy identifies long-term objectives, and articulates the high level approach to their achievement. The strategy was published in February 2005 and forms the basis of our delivery plans. The strategy is currently being reviewed, informing planning for the Comprehensive Spending Review 07 period. I have established a Strategy Group with responsibility for developing a shared overview of cross-cutting policy and strategy activity in the Department, and to monitor its development and delivery. My senior officials and I hold regular meetings with Ministers to ensure that there is an understanding of the Department's strategic risks.

As Permanent Secretary, I chair the Departmental Board (DB), which is responsible for scrutinising, challenging and providing advice on delivery strategies, plans, programmes, performance and governance arrangements. The Board is currently comprised of three ET members and four Non-Executive members. In order to strengthen the provision of independent advice and challenge to the Department and its Agencies a number of additional Non-Executives have been recruited during the year.

**The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve 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 2007 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. A number of improvements to the system of internal control have been implemented during the course of the year as set out below.

**The risk and control framework**

The Department's overarching governance arrangements, which are described in the Departmental Framework, are underpinned by supporting frameworks, instructions and guidance. The Departmental Framework is kept under review to reflect organisational and other changes.

The Department's strategy for managing risk is outlined in its Risk Management Framework, which was re-launched in September 2006 to reflect Departmental and external best practice. A key feature of the revised framework is the commitment to adopt a standard approach across the Department to aid the sharing and communication of risk information.

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

The Department's Standing Financial Instructions specify the high level system of financial control. These instructions are underpinned by financial frameworks and delegations that are reviewed regularly. A new Business Controls System is designed to improve levels of compliance and assurance. Roll out of the system across the Department began in June 2006 and will be fully implemented during 2007-08. The system enables non-compliance with prescribed checks to be dealt with at source and provides improved management information at individual and business level.

The Department's business continuity management arrangements are set out in the Departmental Business Continuity Framework and are championed by an ET member, the Business Continuity Director. A number of rehearsals have been undertaken to ensure plans are robust and 23 actual and threatened disruptions were effectively managed during 2006-07. The DWP Business Continuity Plan has been strengthened during 2006-07 to take account of ET rehearsals and now includes new contingencies covering major disruptions to fuel supplies – gas and/or electricity – and the impact of a flu pandemic.

Comprehensive Information System Security Standards are in place and new information systems are subject to security accreditation in accordance with Cabinet Office Standards. The Information Security 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.

During the course of the year accountabilities over the stewardship of the Department's Non-Departmental Public Bodies (NDPBs) have been strengthened with the publication of the Departmental NDPB Framework and supporting guidance.

**Capacity to handle risk**

Each quarter, ET formally reviews the Department's performance, strategic risks and associated mitigation plans which are recorded in the strategic risk register. Management of performance and strategic risk is also subject to independent review and challenge by the Departmental Board. ET continues to consider the challenge of achieving PSA targets and other agreed performance levels, while delivering required efficiencies, to be a significant strategic risk to the Department. The Planning Performance and Risk Committee chaired by the Finance Director General supports me in identifying and managing cross-cutting strategic risks.

The continuing modernisation of our key delivery services while maintaining the volume and standard of service to our customers is recognised by ourselves, OGC, HMT and NAO to be a considerable challenge. The Departmental Business Strategy has been developed to address this challenge and a Change Programme initiated to deliver the Department's vision of "Work, Welfare and Well-being; Well delivered". 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 a cross-cutting element of the programme.

To enable staff to acquire the risk management skills and knowledge they require to manage the risks appropriate to their role, a range of practical guidance, e-learning and formal risk management training courses are available throughout the year.

**Review of Effectiveness**

As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the 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 weaknesses and ensure continuous improvement of the system where necessary.

Formal benchmarking of the level of risk-management capability and capacity across the Department has been assessed using the HM Treasury Risk Assessment Framework. The assessments were validated by Risk Assurance Division (RAD) and provided evidence of continued improvement, with risk management implemented in all key areas. Plans are in place in all businesses to further improve and monitor risk management capability. In addition, RAD facilitated a high-level review of the adequacy of risk management arrangements with input from each ET member. The review confirmed that good progress was being made in establishing robust frameworks, but highlighted the need to further improve the quality of risk assessment and risk mitigation.

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

The Internal Audit work programme for 2006-07 reflected extensive discussions with senior managers, focusing on what they and the internal audit function of RAD viewed as the areas of greatest risk to the achievement of business objectives. The work programme was approved by the Departmental Audit Committee, and kept under review by all parties throughout the year to ensure that it reflected changing business risks and priorities.

In his Annual Assurance Report, the Risk Assurance Director highlighted the fact that significant improvements have been made in a number of areas of internal control. At the same time he noted the challenge of maintaining effective controls in a business that is subject to a significant programme of change and the difficulty of establishing cost effective measures to deal with a number of issues faced by the Department. In the light of this and the outcomes of Audits undertaken throughout the period he has provided me with limited assurance overall in relation to the adequacy and effectiveness of our risk management, control and governance processes.

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. In his assurance report the DSO noted that a considerable amount of work was undertaken during the course of the year to reduce a number of known vulnerabilities in the Department's security regimes. The Department's commitment to improve security handling has been underlined by a recent decision to increase investment in security at a time of headcount reductions elsewhere in the Department. Although, recognising that good progress towards eliminating weakness was made in 2006-07, the DSO in conjunction with the Risk Assurance Director assessed the level of assurance around security controls as limited.

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 weaknesses. The internal control weaknesses identified within individual Letters of Assurance inform 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.

The decision which I and the relevant ET members took to stop development of the Benefit Processing Replacement Programme was taken following an external review of the programme and as a result of changes to the strategic direction of the Department. Although it represented a significant loss to public funds, the decision to stop the programme at a relatively early stage in its development undoubtedly prevented the loss of substantially greater sums of public money which would have occurred had the Programme not been brought to an end. Lessons learned have been incorporated within ongoing work to minimise risk by reviewing and strengthening our governance arrangements.

**Fraud and Error in the benefit system**

Estimated losses from fraud and error in the benefit system continue and I estimate that they amounted to some 2.1% of benefit spend (approximately £2.5 billion) in 2006-07. About a third of these losses are directly attributable to errors arising within the Department's or Local Authorities' own benefit processes, about a third attributable to customer error, and the remainder due to fraud. The Department has ambitious ongoing PSA targets for the reduction of fraud and error. Estimates published on 1 February 2007 show that the SR 02 target for IS and JSA was achieved but that targets for Pension Credit and Housing Benefit were not fully met. NAO in its International Benchmark report of Fraud and Error in Social Security Systems recognised that the Department is at the forefront in developing estimates of losses from fraud in social security expenditure and compares favourably in terms of awareness and activities to combat the problem. It also noted that the rates of fraud faced by the Department appear comparable to those of other countries where the comparison could be made.

In 2006 I established an Official Error Task Force with the specific aim of reducing the level of official error across the main areas of loss – Income Support (IS), Jobseeker's Allowance (JSA), Housing Benefit and Pension Credit. Internal indicative results suggest that the Task Force is proving effective. Our internal official error measurement data for the rolling twelve month period to December 2006 suggests that monetary value of errors targeted by Task Force in IS and JSA have reduced by around 33% between April 2006 and December 2006. Similar progress is evident in Pension Credit targeted errors with an estimated reduction of around 25% during the same period.

The Department's comprehensive error reduction strategy "Getting Welfare Right: Tackling Error in the Benefit System" was launched in January 2007. The strategy covers the period to 2012 and aims to deliver an estimated £1 billion reduction in expenditure attributable to error in that period.

The Department continues to target benefit fraud. During 2006-07 it launched a major "No Ifs, No Buts, Benefit Fraud is Benefit Theft" campaign. The Campaign highlights individuals' responsibilities while in receipt of benefit and provides contact details for the reporting of benefit fraud both on line and by telephone.

**Significant internal control problems**

Debt recovery targets have been an ongoing priority for the Department with £233 million recovered in 2006-07. Whilst this fell below the ambitious target we set ourselves, it is a significant improvement on previous years and the highest annual figure recovered in the Department's history. Related work continues to generate sustainable improvements in the identification, referral and management of debt. The Debt Programme is delivering improvements through key initiatives including data cleansing and implementation of the Debt Manager IT System. Task Forces have been established in both Jobcentre Plus and The Pension Service to address identification and referral issues and the backlog of referrals has been cleared this year. NAO are currently undertaking the second phase of a debt audit strategy on the existence, valuation and completeness aspects of the debt qualification under Debt Manager. The significant progress made in addressing this account qualification was recognised by the Comptroller and Auditor General in his 2006-07 audit report.

The overall position surrounding document retrieval has improved during the year although a recent increase in storage requirements has 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. The National Audit Office has identified this issue in their audit examination of the Social Fund Accounts along with weaknesses relating to the recording of evidence on decisions made on applications for Social Fund support. Jobcentre Plus have taken forward a number of initiatives to assist staff with decision making and these have been included within the Social Fund Standard Operating Model.

In December 2006 the Secretary of State announced the establishment of the Child Maintenance and Enforcement Commission, a Non-Departmental Public Body that will come into existence in late 2008 and will take forward the delivery of child maintenance. In the interim the Child Support Agency is continuing the delivery of its operational improvement plan. As in previous years the Child Support Agency has reported a number of significant control issues within its Statement on Internal Control. Overall, however, the Agency has made substantial progress during the past year in its performance particularly in respect of reducing backlogs, speed of call answering and the throughput of cases.

Non-compliance with Departmental processes, operational instructions, controls and checks has been a long-standing issue. The Department's Finance Director General initiated a programme of action during 2006 to identify and reduce incidences of non-compliance and priority will continue to be given to this issue during 2007-08. During 2006-07 significant management attention was also given to addressing control weaknesses relating to the security and safe custody of personal data held about customers and employees and the Department's new Resource Management System. Progress made in addressing these weaknesses will be further consolidated during 2007-08.

***Leigh Lewis***
**Accounting Officer**

20 July 2007

# The Certificate 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 2007 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 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 and the Management Commentary 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. 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 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.

However, the Department was unable to provide sufficient assurance that the £1,681 million of the balance sheet debt relating to gross customer overpayments are accurately stated. There were no other satisfactory procedures that I could adopt to confirm that the amounts for customer overpayments were accurately stated.

**Opinions**

**Qualified audit opinion due to limitation of scope**

In my opinion:

- except for any adjustments that might have been necessary had I been able to obtain sufficient evidence concerning the completeness of customer overpayment debt, 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 2007, 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 given within the Annual Report and the Management Commentary, is consistent with the financial statements.

In respect alone of the limitations on my work relating to customer overpayment debt I have not obtained all the information and explanations that I considered necessary for the purpose of my audit.

**Qualified audit opinion on regularity due to irregular expenditure**

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

In my opinion, except for the expenditure relating to erroneous benefit awards and arising from fraudulent benefit claims, 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.

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

***John Bourn***
**Comptroller and Auditor General**

23 July 2007

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

# Report by the Comptroller and Auditor General to the House of Commons

**Introduction**

1. In its consolidated resource account, the Department for Work and Pensions accounts for expenditure of £128 billion on a wide range of benefits, employment programmes and the associated administration costs, together with its assets and liabilities at the year-end.

2. In 2004-05, I began the rollout of an enhanced financial audit strategy for the audit of the Department's financial statements which I have continued to progress during my audit of the 2006-07 accounts. My main motivation in doing this was to assist the Department in addressing some of the long standing problems which have led to repeated qualification of my opinion on the accounts and to bring about greater transparency of the barriers to long term improvement that the Department faces.

3. In this Report I provide an update on the issues I reported on last year. Under each issue I report progress made and the implications for this year's accounts, together with details of initiatives underway to bring about long term improvement.

4. This is the 18th successive year in which I have qualified the Department's accounts. I am pleased to report, however, that this year has seen further real progress towards removing or tackling these long-standing qualifications, building on initiatives put in train last year. The Department's staff have continued to demonstrate real determination to resolve the underlying causes of these qualifications. Indeed I have been able to remove two aspects of the long-standing limitation of scope qualification on customer overpayment debt balances, which is a tribute to the clear leadership evident within the Department in tackling these issues.

## Audit Opinion

5. In 2005-06 I qualified my opinion on two specific issues. In 2006-07, although real progress has been made in tackling the underlying causes, I am again qualifying my opinion on the same two issues. These are:

- Substantial levels of estimated losses from fraud and error in benefit expenditure recorded in the operating cost statement. I provide full details in paragraphs 6 to 25.
- Material uncertainties over the completeness of customer overpayment debtors. Details are provided in paragraphs 26 to 30.

**Substantial levels of estimated irregular payments resulting from fraud and error in benefit expenditure**

6. Based on information provided by the Department and my own independent testing I estimate that £2.5 billion may have been lost in 2006-07 compared to £2.7 billion in 2005-06. This £0.2 billion improvement when expressed as a percentage of benefit expenditure represents a 0.2 per cent fall to 2.1 per cent compared to 2.3 per cent in 2005-06.

7. The Department estimates underpayments of benefit in 2006-07 of £1 billion, of which £0.4 billion was due to official error. Nonetheless, where comparisons are feasible, for certain continuously monitored benefits upon which the Department's efforts have focussed, the Department is again showing a trend of reducing error.

***The estimation methodology***

8. In my Report *'International benchmark of fraud and error in social security systems'* (HC1387 2005-06), I noted that the Department is at the forefront of fraud and error measurement and compares well with other countries in terms of focus and initiatives to combat the problem. In 2006-07 the Department has continued to build on that positive endorsement by continuing to enhance and better focus its measurement processes. For example, the Department has included details of underpayments and refined the estimates for smaller value benefit streams not ordinarily subjected to detailed fraud and error measurement.

9. The Department's evidence supporting the fraud and error estimate is based on a range of exercises which are intended to reflect fraud and error risks associated with individual benefits. More regular review is applied to those benefits which are considered to be more susceptible to fraud and error. The estimated error arising from each of the exercises is set out in Note 44 to the Account along with an explanation of what each exercise involves. In summary, the percentage of benefits expenditure in 2006-07 covered by continuous assessment was 27 per cent, the percentage based on periodic National Benefit Reviews was 59 per cent and the percentage based on assumptions of comparability with other benefits was 14 per cent.

10. As part of my audit of these accounts, including the Department's estimate of fraud and error, the NAO reviewed the Department's approach to sampling and the methodology applied in checking, including re-performance of a sample of items. The National Audit Office also reviewed the processes for interpreting the data and generating estimates of error and fraud. As a result, I am satisfied that the figures reported by the Department are the best estimates available. In making this statement the National Audit Office has specifically obtained assurances around the estimation of error in unreviewed benefits and in the confidence intervals used in the Department's analysis.

***Confidence Intervals***

11. The estimates of fraud and error are based on analysis of samples of benefit payments and are subject to a degree of statistical uncertainty. This is quantified in the form of confidence intervals and expressed as a percentage expectation that the true value of the estimated error lies within a particular range. The Department applies confidence intervals of 95 per cent in accordance with the standards applicable to generating National Statistics.

12. The Department has estimated that, whilst the best estimate of overpayments is £2.5 billion, to achieve 95 per cent confidence of the actual levels of overpayment the range of the estimate is from £2.1 billion to £2.8 billion. For underpayments, the equivalent figures are an estimate of £1 billion within a range of £0.8 billion to £1.2 billion. These estimates have been subject to rigorous statistical analysis and I am satisfied that the assumptions underpinning these estimates are sufficiently robust.

***Social Fund***

13. On page 62 the financial statements show payments of £2.481 billion to the Social Fund to allow awards to qualifying customers, including around £830 million on discretionary awards. The Department's estimation methodology for fraud and error includes an element for Social Fund awards based on comparability with other benefits. My separate audit of the Social Fund White Paper Account for 2006-07 noted irregular payments of discretionary awards totalling around £31 million and as a result I qualified my audit opinion on that Account (HC977/06-07). Upon consolidation into the Resource Account, however, the same amounts are not in themselves considered material to my opinion. Nonetheless I understand that the Department is assessing the scope for alternative mechanisms to estimate the value of monetary losses each year in Social Fund payments.

***Developments in the measurement methodology***

14. As described in my Report on the 2005-06 accounts, the Department has committed to further improving the measurement of fraud and error and tackling the underlying causes. During 2006-07, the Department has enhanced the way fraud and error will be measured and reported in future. Further enhancements will be developed to improve the efficiency and effectiveness of the measurement regime. Enhancements will include:

- The use of more in-year transaction testing results to derive the reported estimates. At present much of the estimation process is driven by transactions tested in the previous reporting year or before;
- Modification to the sampling approach and testing programme of continuously measured benefits to improve the efficiency with which data is collected and thereby make the estimate more representative; and
- The introduction of more robust quality control procedures, which should further improve the accuracy of the reported results.

15. The Department is also currently reviewing the performance measurement work already being carried out within each of the Agencies responsible for the calculation and payment of benefits. This review will assess the potential to align Agency-led work with Department-wide work and thereby establish a much more holistic approach to the measurement of both fraud and error.

16. I welcome these enhancements and will continue to monitor developments in this area, providing an update in my future reports.

***The Department's Strategy to reduce fraud and error***

17. In 2005 the Department demonstrated its commitment to tackling fraud in publishing *'Reducing Fraud in the Benefit System – Achievements and Ambitions'*. This highlighted key initiatives supporting the Department's approach to Fraud prevention. In January 2007 the Department also published *'Getting welfare right – Tackling error in the benefits system'*, highlighting the various strategies and initiatives being taken or planned.

18. These initiatives include an anti-fraud advertising campaign, legislative reform to support fraud investigations and sanctions, increased use of risk-profiling to target investigations towards high risk individuals, development of new technologies to identify fraud at the point of claim and advanced data-matching, comparing data from a number of sources including the Department, other Government departments and external sources. There are plans to further develop data-matching using advanced IT systems which will allow more timely identification of fraud and error and, in particular, help to target organised fraud rings.

19. With the publication of its error strategy, this year has seen an increased focus on tackling customer error while continuing to address official error by building on last year's Official Error Task Force. Customer error arises when customers unintentionally provide incorrect information when making a claim to benefit or fail to provide timely information on changes in their circumstances which affect the level of benefit paid. Official error can arise from a number of reasons, the most common of which are – the complex nature of rules governing the benefits system, IT systems not as integrated as they could be, poor business process design and human fallibility. The strategy, consistent with previous Departmental initiatives, places the emphasis on preventing new error from entering the system, improving compliance by reminding staff and customers of their responsibilities and identifying and correcting error already in the benefits system. Specific new initiatives to counter customer error include:

- influencing customer behaviour – a campaign to increase public awareness of the need to inform the Department of lifestyle changes;
- introducing targeted reviews – where the case has not been reviewed for a period of time, asking customers to confirm whether or not the entitlement details held continue to be correct; and
- making it easier for customers to report changes in their circumstances via the telephone and, in time, over the internet.

20. I am currently carrying out a review of the impact of the Department's activity to counter fraud. This will provide an update on my Report *'Tackling Benefit Fraud'* (HC392 2002-03) by examining in detail six of the Department's counter-fraud initiatives: the advertising campaign, fraud investigation procedures, customer compliance, data-matching, the national benefit fraud hotline and prosecutions. I will report my findings separately during 2007-08. In 2008-09 I intend to supplement my review of counter-fraud initiatives with a review of progress in tackling error and complexity in the benefits system. These reviews are part of a substantial programme of NAO work designed to support the Department in its attempts to address the root causes of the qualification on my opinion on the accounts.

***Further Developments***

21. As noted above, the Department is devoting significant effort to reducing the incidence of fraud and error and also to improving its approach to measurement to ensure that the information available is as accurate as possible. I fully support these initiatives and the Department's renewed drive to achieve a position where I am able to remove the long-standing qualification of my opinion on these accounts in this regard.

22. To achieve this, the Department still faces a significant challenge and will need to assess the extent to which fraud and error can continue to be reduced when considered against the cost of the Department's initiatives. To assist in this consideration, and building on my review this year of the Department's counter-fraud initiatives, I plan to carry out further reviews of the value for money of the Department's initiatives. For example, I intend to report during 2008-09 on the Department's work in tackling Official Error. An important factor in the cost effectiveness of error reduction continues to be the complexity of the benefits system as I have already reported, most recently during 2005 in my Report *'Dealing with the Complexity of the Benefit System'* (HC 592 2005-06)

23. The detail provided in paragraphs 6 to 20 above, demonstrates that there is material error arising from overpayments alone. However, as raised during the last Committee of Public Accounts hearing on these issues (HC411 incorporating HC 447-I, Session 2004-05) some members were also concerned about the levels of underpayment of benefits. Consideration of the costs and benefits of reducing errors in benefit payments will therefore need to consider both overpayments and underpayments. I will continue to work with the Department in addressing this important issue.

***Conclusions on fraud and error in benefit expenditure***

24. The estimate of £2.5 billion overpayments due to fraud and all types of error represents around 2 per cent of the £128 billion of gross expenditure. Although this represents a further reduction of the levels reported in previous years, in my view it is a material sum of expenditure not spent in accordance with Parliament's intentions and I have therefore qualified my audit opinion on the account.

25. I have now qualified the Department's account and those of its predecessors for the past 18 years because of the scale of fraud and error in benefit expenditure. The Department is placing increased focus on both addressing the causes of fraud and error and improved measurement accuracy. My staff will continue to monitor these developments as part of my annual review of the financial statements and also through my Value for Money Reports as noted above.

## Material uncertainty over Contributory and Non Contributory Benefit Customer Overpayment Debtors

26. Overpayments to customers arise from fraud and errors by customers and from errors by officials. These are predominantly identified by staff in local offices, although they are also picked up by the extensive testing undertaken to estimate fraud and error. Identified overpayments are referred to Debt Centres for confirmation of the existence of a debt, its valuation and scope for recovery. Once confirmed, the debts are included in the debt balances recorded in the Department's balance sheet.

27. In previous years I have limited the scope of my audit opinion because the Department has been unable to provide me with all relevant evidence to demonstrate that the customer overpayment debt balance recorded within the Resource Account balance sheet is complete, accurately valued and consistently proven to exist. My work in 2006-07 has allowed me to conclude that there is now sufficient evidence that the disclosed debt exists and is accurately valued. I am, however, still unable to determine that all debts that could have been identified and referred to Debt Centres for recovery have in fact been so. I am, therefore, unable to provide an unqualified opinion in respect of the completeness of debt and continue to limit the scope of my audit opinion in this respect.

28. Significant efforts have been made by the Department in recent years in enhancing the identification and management of customer overpayment debt. The introduction of the Debt Manager IT system in 2005 allowed the Department to cleanse data and to put in place processes that reliably support the existence and valuation of overpayment debts recorded in the balance sheet. Work by my staff has confirmed that this has been done well and provides a sound basis for the future. Furthermore, in March 2007, NAO conducted a pioneering stock-take at every Debt Centre to confirm that, unlike the previous year, a material backlog of debt referrals from operational business units had not built up.

29. I am also aware of the steps being taken in Jobcentre Plus and The Pension Service to develop more streamlined business processes that will allow the prompt identification of overpayments and referral for recovery action. These processes will be crucial to ensuring that future balance sheets record the complete debt position at the end of each financial year. I welcome these initiatives as positive steps to address the current limitation in evidence to support disclosed debt.

30. The Department is considering the criteria for determining the extent to which the identification and recovery of historic benefit overpayments, not previously identified and referred for recovery over many years, may represent value for money to pursue. My staff will continue to monitor these developments as part of my annual review of the financial statements.

***John Bourn***
**Comptroller and Auditor General**

23 July 2007

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

# Statement of Parliamentary Supply

## Summary of Resource Outturn 2006-07

| | | Estimate | | | Outturn | | | | Restated 2005-06 Outturn |
|---|---|---|---|---|---|---|---|---|---|
| | | Gross Expenditure | A in A | Net Total | Gross Expenditure | A in A | Net Total | 2006-07 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 | 502,867 | (2,535) | **500,332** | 492,460 | (178) | **492,282** | 8,050 | **397,578** |
| 2: Working Age | 2 | 39,836,222 | (1,941,155) | **37,895,067** | 38,827,824 | (1,900,881) | **36,926,943** | 968,124 | **35,106,053** |
| 3: Pensioners | 2 | 11,614,146 | (415,073) | **11,199,073** | 11,438,719 | (415,073) | **11,023,646** | 175,427 | **10,782,904** |
| 4: Disabled | 2 | 15,175,856 | (33,975) | **15,141,881** | 15,078,988 | (28,962) | **15,050,026** | 91,855 | **14,160,293** |
| 5: Corporate Services | 2 | 1,146,397 | (310,755) | **835,642** | 1,059,025 | (310,755) | **748,270** | 87,372 | **1,928,993** |
| **Total Resources** | | **68,275,488** | **(2,703,493)** | **65,571,995** | **66,897,016** | **(2,655,849)** | **64,241,167** | **1,330,828** | **62,375,821** |
| **Non-Operating Cost A in A** | | **–** | **(3,876)** | **(3,876)** | **–** | **(2,553)** | **(2,553)** | **(1,323)** | **(8,700)** |

## Net Cash Requirement 2006-07

| | Note | Estimate | Outturn | 2006-07 Net Total Outturn compared with Estimate: saving/ (excess) | Restated 2005-06 Outturn |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| **Net Cash Requirement** | 4 | **66,084,521** | **62,873,709** | **3,210,812** | **63,349,430** |

## 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 2006-07 | | Outturn 2006-07 | |
|---|---|---|---|---|---|
| | | Income | *Receipts* | Income | *Receipts* |
| | Note | £000 | *£000* | £000 | *£000* |
| **Total** | 5 | 5,000 | *5,000* | 17,568 | *43,698* |

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 52 to 117 form part of these accounts.*

## Operating Cost Statement
for the year ended 31 March 2007

| | Note | Staff Costs £000 | Other Costs £000 | Income £000 | 2006-07 Sub-total by RfR £000 | Restated 2005-06 £000 |
|---|---|---|---|---|---|---|
| **Administration Costs** | | | | | | |
| **RfR 1 (Children)** | | | | | | |
| Staff Costs | 8 | 271,215 | | | | 240,141 |
| Other administration costs | 9 | | 249,307 | | | 225,121 |
| Operating income | 14 | | | (179) | | (171) |
| RfR 1 Sub-total | | | | | 520,343 | 465,091 |
| **RfR 2 (Working Age)** | | | | | | |
| Staff Costs | 8 | 2,051,298 | | | | 2,091,927 |
| Other administration costs | 9 | | 1,953,681 | | | 1,848,659 |
| Operating income | 14 | | | (109,708) | | (86,792) |
| RfR 2 Sub-total | | | | | 3,895,271 | 3,853,794 |
| **RfR 3 (Pensioners)** | | | | | | |
| Staff Costs | 8 | 350,067 | | | | 379,146 |
| Other administration costs | 9 | | 506,309 | | | 666,441 |
| Operating income | 14 | | | (6,209) | | (2,608) |
| RfR 3 Sub-total | | | | | 850,167 | 1,042,979 |
| **RfR 4 (Disabled)** | | | | | | |
| Staff Costs | 8 | 151,975 | | | | 155,664 |
| Other administration costs | 9 | | 154,959 | | | 151,279 |
| Operating income | 14 | | | (568) | | (587) |
| RfR 4 Sub-total | | | | | 306,366 | 306,356 |
| **RfR 5 (Corporate Services)** | | | | | | |
| Staff Costs | 8 | 309,102 | | | | 315,953 |
| Other administration costs | 9 | | 189,543 | | | 215,524 |
| Operating income | 14 | | | (34,284) | | (58,412) |
| RfR 5 Sub-total | | | | | 464,361 | 473,065 |
| **Net Administration Costs** | | | | | **6,036,508** | **6,141,285** |
| **Programme Costs** | | | | | | |
| **RfR 2 (Working Age)** | | | | | | |
| Programme costs | 13 | | 34,681,332 | | | 33,598,798 |
| Income | 14 | | | (875,450) | | (825,939) |
| RfR 2 Sub-total | | | | | 33,805,882 | 32,772,859 |
| **RfR 3 (Pensioners)** | | | | | | |
| Programme costs | 13 | | 10,613,220 | | | 10,586,024 |
| Income | 14 | | | (43,897) | | (41,140) |
| RfR 3 Sub-total | | | | | 10,569,323 | 10,544,884 |
| **RfR 4 (Disabled)** | | | | | | |
| Programme costs | 13 | | 14,793,744 | | | 13,960,913 |
| Income | 14 | | | (1,400) | | (864) |
| RfR 4 Sub-total | | | | | 14,792,344 | 13,960,049 |
| **RfR 5 (Corporate Services)** | | | | | | |
| Programme costs | 13 | | 9,426 | | | – |
| Income | 14 | | | – | | – |
| RfR 5 Sub-total | | | | | 9,426 | – |

| | Note | Staff Costs | Other Costs | Income | 2006-07 Sub-total by RfR | Restated 2005-06 |
|---|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 | £000 |
| **National Insurance Benefits and Non-Voted Expenditure** | | | | | | |
| Expenditure | 13 | | 61,720,537 | | | 59,657,789 |
| Income | 14 | | | (3,092) | | (2,965) |
| NIF Sub-total | 16b | | | | 61,717,445 | 59,654,824 |
| **Net Programme Costs** | 13 | | | | **120,894,420** | **116,932,616** |
| **Totals** | | 3,133,657 | 124,872,058 | (1,074,787) | | |
| **Net Operating Cost** | | | | | **126,930,928** | **123,073,901** |

All income and expenditure is derived from continuing operations.

## Statement of Recognised Gains and Losses
for the year ended 31 March 2007

| | Note | 2006-07 £000 | 2005-06 £000 |
|---|---|---|---|
| Net gain on revaluation of tangible fixed assets | | 1,922 | 1,560 |
| Net gain on revaluation of investments | 23 | 310 | 909 |
| Movement in Government Grant Reserve | 31b | (16) | (17) |
| Increase to provision arising on actuarial valuation of pensions by analogy | 29 | (157) | – |
| Pension fund actuarial gains | 29 | 3,714 | 719 |
| **Recognised gains and losses for the financial year** | | **5,773** | **3,171** |

*The notes on pages 52 to 117 form part of these accounts.*

## Balance Sheet
as at 31 March 2007

| | Note | 31 March 2007 £000 | 31 March 2007 £000 | Restated 31 March 2006 £000 | Restated 31 March 2006 £000 |
|---|---|---|---|---|---|
| **Fixed Assets** | | | | | |
| Tangible assets | 21 | 937,677 | | 963,671 | |
| Intangible assets | 22 | 52,200 | | 39,733 | |
| Investments | 23 | 1,433 | | 1,123 | |
| | | | 991,310 | | 1,004,527 |
| Debtors falling due after more than one year | 25 | | 1,533,357 | | 1,194,636 |
| **Current Assets** | | | | | |
| Stocks and Work in progress | 24 | 1,525 | | 1,249 | |
| Debtors | 25 | 2,197,647 | | 2,660,886 | |
| Cash with paying agents | | 59,958 | | 536 | |
| Cash at bank and in hand | 26 | 217,530 | | 271,537 | |
| | | 2,476,660 | | 2,934,208 | |
| **Current Liabilities** | | | | | |
| Creditors (amounts falling due within one year) | 27 | (3,766,154) | | (3,578,885) | |
| **Net Current Liabilities** | | | (1,289,494) | | (644,677) |
| **Total Assets less Current Liabilities** | | | 1,235,173 | | 1,554,486 |
| **Creditors (amounts falling due after more than one year)** | 27 | (342,208) | | (349,030) | |
| **Pension Liability** | 29 | (5,517) | | (9,946) | |
| **Provisions for Liabilities and Charges** | 28 | (1,101,166) | | (388,736) | |
| | | | (1,448,891) | | (747,712) |
| | | | **(213,718)** | | **806,774** |
| **Taxpayers' Equity** | | | | | |
| General Fund | 30 | | (225,684) | | 796,570 |
| Revaluation Reserve | 31a | | 11,962 | | 10,184 |
| Government Grant Reserve | 31b | | 4 | | 20 |
| | | | **(213,718)** | | **806,774** |

***Leigh Lewis***
**Accounting Officer**

**20 July 2007**

*The notes on pages 52 to 117 form part of these accounts.*

## Consolidated Cash Flow Statement
for the year ended 31 March 2007

| | Note | 2006-07 £000 | Restated 2005-06 £000 |
|---|---|---|---|
| Net cash outflow from operating activities | 32a | (125,656,518) | (123,968,660) |
| Capital expenditure and financial investment | 32b | (231,787) | (296,703) |
| Receipts due to the Consolidated Fund which are outside the scope of the Department's activities | | 41,760 | 129,866 |
| Payments of amounts due to the Consolidated Fund | | (82,459) | (26,074) |
| Net financing from the Consolidated Fund | 32d | 63,010,266 | 62,690,646 |
| Financing from the National Insurance Fund | 32d | 63,016,534 | 60,915,874 |
| Other | | – | 64 |
| **Increase/(Decrease) in cash in the period** | 32e | **97,796** | **(554,987)** |

*The notes on pages 52 to 117 form part of these accounts.*

## Consolidated Statement of Operating Costs by Departmental Aim and Objectives
for the year ended 31 March 2007

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

| | 2006-07 | | | | |
|---|---|---|---|---|---|
| | | 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. | 2,213,237 | (23,432) | 2,189,805 | 562,421 | 2,752,226 |
| **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. | 31,459,565 | (211,582) | 31,247,983 | 4,210,266 | 35,458,249 |
| **Objective 3** To combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners. | 71,914,087 | (43,897) | 71,870,190 | 907,935 | 72,778,125 |
| **Objective 4** To improve rights and opportunities for disabled people in a fair and inclusive society. | 15,587,842 | (1,400) | 15,586,442 | 331,141 | 15,917,583 |
| **Objective 5** To ensure customers receive a high quality service, including high levels of accuracy. | – | – | – | 24,745 | 24,745 |
| **Net Operating Costs** | **121,174,731** | **(280,311)** | **120,894,420** | **6,036,508** | **126,930,928** |

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.

Restated 2005-06

| | | Programme | | Administration | Total |
|---|---|---|---|---|---|
| | Gross | Income | Net | Net | Net |
| | £000 | £000 | £000 | £000 | £000 |
| **Objective 1**<br>To ensure the best start for all children and end child poverty by 2020. | 2,637,073 | (27,970) | 2,609,103 | 504,083 | 3,113,186 |
| **Objective 2**<br>To promote work as the best form of welfare for people of working age, whilst protecting the position of those in greatest need. | 30,947,709 | (270,987) | 30,676,722 | 4,163,349 | 34,840,071 |
| **Objective 3**<br>To combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners. | 68,938,588 | (41,140) | 68,897,448 | 1,116,205 | 70,013,653 |
| **Objective 4**<br>To improve rights and opportunities for disabled people in a fair and inclusive society. | 14,750,207 | (864) | 14,749,343 | 332,040 | 15,081,383 |
| **Objective 5**<br>To ensure customers receive a high quality service, including high levels of accuracy. | – | – | – | 25,608 | 25,608 |
| **Net Operating Costs** | **117,273,577** | **(340,961)** | **116,932,616** | **6,141,285** | **123,073,901** |

See Note 33 for further information on this statement.

*The notes on pages 52 to 117 form part of these accounts.*

# Notes to the Accounts

## 1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2006-07 *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 Disability Rights Commission (DRC), the Pension Advisory Service (PAS) 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, DRC 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**

Benefit debts arise when an overpayment occurs. Benefit debt recognised in the balance sheet is valued at the difference between the amount paid to the customer by the Department and the actual benefit entitlement. The value is communicated to the customer by an overpayment decision letter. The Department regards this letter as sufficient and appropriate evidence to support the initial or original valuation and existence of a debt. Customers have the right of appeal against the overpayment decision.

A significant proportion of debt remains on file for many years. The Department cannot therefore maintain a comprehensive evidential set of documents for every transaction in the life of a debt. However, periodic reconciliations are performed to confirm cash and benefit deduction recoveries at individual debtor level.

Where an overpayment cannot be immediately recovered, the majority of debt is not written off but is held with a view to recovery against any future benefit claim by that customer.

A general provision for bad and doubtful debt is made for debts where the Department cannot recover for the foreseeable future. The provision is derived from the debt balance less forecast cash and benefit deduction recoveries and write-offs.

Certain categories of debt are written off, 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.

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 *Government Accounting.* Secretary of State waivers are referred to a central unit for a decision. The other write-off categories are decided at business unit level, with cases identified for write-off subject to agreement by line management. The Department undertakes additional management checks on the quality and consistency of write-off decision making through periodic business management and risk assurance checks. Any performance issues resulting from this assurance process are addressed through revised guidance and training.

In addition, the Department recognises a contingent liability in respect of an element of benefit debt that could be subject to challenge and consequent write-off.

### 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 being the Net Present Value of the likely assistance payments. The estimate is based on an actuarial model of likely caseload. The Department recognises that the basis of the estimate is subject to uncertainty and may need adjustment in a subsequent year of account once actual caseloads are known. The assumptions underlying the model are regularly reviewed against operational data. Reviews were carried out in September 2006 and in early 2007 and the operational data showed that the assumptions were valid.

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

Forecasts for these two benefits are estimates of the amounts to be paid to the National Insurance Fund, in respect of recoveries by employers of Statutory Sick Pay and Statutory Maternity Pay. Prior to 2006-07, forecasts for these benefits were provided by the Government Actuary's Department (GAD), as that Department had responsibility for this area of work. Following the Morris Review of the Actuarial Profession, it was decided to transfer the responsibility for forecasting these amounts to the Department from 2006-07 onwards, as is the practice with other state benefits. The Morris Review suggested that the associated accountability arrangements would promote improved corporate governance, not least through better integration of the forecasts for these two benefits with forecasts of other elements of the social security system. The DWP estimate for both SSP and SMP combined is £247.2 million higher than GAD's estimate.

### 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.

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, assets under construction and internally developed software, are revalued by reference to appropriate HM Treasury approved indices.

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

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

Each year, the realised element of the reserve (i.e. an amount equal to the excess of the actual depreciation over depreciation based on historical cost) is transferred from the reserve to the General Fund. On disposal of a revalued asset, the balance on the revaluation reserve in respect of that asset becomes fully realised and is transferred to the General Fund.

### 1.6 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 than 10 years) |
| Information Technology | 3 to 7 years |
| Software Development | 5 years |
| 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. Software licences are not revalued.

**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 2007 (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, with the exception of HSE, 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% – 2005-06 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. Departments meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year. There is a separate scheme statement for the PCSPS as a whole. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation: (www.civilservice-pensions.gov.uk).

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

A small number of the Department's staff are members of the Local Government Pension Scheme (LGPS). The LGPS is a funded multi-employer contributory defined benefit scheme. The London Pensions Fund Authority (LPFA) administers the LGPS on behalf of the Department. Every three years independent actuaries carry out a valuation of the pension fund and set the rate at which the Department must contribute to fully fund the payment of the Scheme benefits for the Fund's membership. The latest formal valuation of the LPFA was carried out as at 31 March 2004. 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 2007. 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% (2005-06 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% – 2005-06 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 Government Accounting.

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

| | | 2006-07 | | | | | | | | Restated 2005-06 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 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 | 490,055 | 2,405 | – | 492,460 | (178) | 492,282 | 500,332 | 8,050 | 397,578 |
| | | **490,055** | **2,405** | **–** | **492,460** | **(178)** | **492,282** | **500,332** | **8,050** | **397,578** |
| | **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 | 3,286,597 | 30,626 | 77,448 | 3,394,671 | (526,933) | 2,867,738 | 3,008,749 | 141,011 | 1,952,289 |
| B | Employment programmes | 766 | 697,184 | 98,866 | 796,816 | (3,137) | 793,679 | 923,704 | 130,025 | 966,235 |
| C | Health and Safety Executive | 224,685 | 64,149 | – | 288,834 | (55,098) | 233,736 | 237,812 | 4,076 | 237,395 |
| D | Health and Safety Laboratory | 30,769 | 4,767 | – | 35,536 | (35,536) | – | – | – | 2,123 |
| E | Capital Grants | – | – | 5,102 | 5,102 | – | 5,102 | 8,476 | 3,374 | 2,302 |
| F | The Rent Service Executive Agency | 34,641 | 1,138 | – | 35,779 | – | 35,779 | 40,231 | 4,452 | 36,499 |
| G | European Social Fund and European Globalisation Fund | – | – | 3,204 | 3,204 | (3,204) | – | – | – | 159,940 |

| | | | | | 2006-07 | | | | | Restated 2005-06 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 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 |
| H | European Social Fund payments in advance of receipts | – | 10,799 | 612,834 | 623,633 | (585,213) | 38,420 | 32,700 | (5,720) | (178,146) |
| | ***Support for Local Authorities*** | | | | | | | | | |
| I | Employment Programmes | – | – | 63,824 | 63,824 | – | 63,824 | 37,047 | (26,777) | 68,876 |
| J | Challenge funding and similar administrative measures – Local Authorities | – | – | 255 | 255 | – | 255 | – | (255) | 144,992 |
| K | Housing benefit and council tax benefit administration grants | – | – | 609,675 | 609,675 | – | 609,675 | 569,703 | (39,972) | 482,417 |
| L | Capital grants to Local Authorities | – | – | 5 | 5 | – | 5 | 2,895 | 2,890 | 419 |
| M | European Social Fund | – | – | 410 | 410 | (410) | – | – | – | (3,792) |
| N | European Social Fund payments in advance of receipts | – | – | 54,701 | 54,701 | (54,701) | – | – | – | 52,855 |
| | **Spending in Annually Managed Expenditure (AME)** | | | | | | | | | |
| | ***Central Government spending*** | | | | | | | | | |
| O | Severe Disablement Allowance | – | – | 904,283 | 904,283 | (246) | 904,037 | 932,451 | 28,414 | 900,252 |
| P | Industrial injury benefits | – | – | 834,446 | 834,446 | (41,512) | 792,934 | 790,344 | (2,590) | 787,740 |
| Q | Income support (under 60 years of age) | – | – | 8,875,495 | 8,875,495 | (118,334) | 8,757,161 | 9,352,429 | 595,268 | 9,060,785 |
| R | Jobseeker's allowance (income based) | – | – | 1,964,606 | 1,964,606 | (1,689) | 1,962,917 | 2,051,047 | 88,130 | 1,823,111 |
| S | Jobseeker's allowance (contribution based) | – | – | 474,868 | 474,868 | (474,868) | – | – | – | – |
| T | Job Grant | – | – | 40,278 | 40,278 | – | 40,278 | 35,627 | (4,651) | 38,134 |
| U | Employment Allowances | – | – | 86,416 | 86,416 | – | 86,416 | 85,430 | (986) | 71,749 |
| V | Housing and Council tax benefit capital charge | – | (12,498) | – | (12,498) | – | (12,498) | 3,277 | 15,775 | (8,446) |
| | *Non-continuing benefits debt activity* | – | – | – | – | – | – | – | – | 214 |

| | | Admin | Other Current | Grants | 2006-07 Gross Resource Expenditure | A in A | Net Total | Estimate | Net Total Outturn compared with Estimate Saving/ (Excess) | Restated 2005-06 Prior-Year Outturn |
|---|---|---|---|---|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| ***Support for Local Authorities*** | | | | | | | | | | |
| W | Housing benefit and council tax benefit subsidies | – | – | 13,108,544 | 13,108,544 | – | 13,108,544 | 13,014,986 | (93,558) | 12,115,501 |
| X | Rent rebates | – | – | 5,236,939 | 5,236,939 | – | 5,236,939 | 5,364,658 | 127,719 | 5,050,727 |
| Y | Discretionary housing payments | – | – | 18,108 | 18,108 | – | 18,108 | 20,000 | 1,892 | 16,864 |
| **Non-Budget** | | | | | | | | | | |
| Z | Statutory benefits (SSP and SMP) | – | – | 1,381,235 | 1,381,235 | – | 1,381,235 | 1,381,216 | (19) | 1,325,018 |
| AA | Working Age (Grants in Aid) | – | – | 2,659 | 2,659 | – | 2,659 | 2,285 | (374) | – |
| | | **3,577,458** | **796,165** | **34,454,201** | **38,827,824** | **(1,900,881)** | **36,926,943** | **37,895,067** | **968,124** | **35,106,053** |

**RfR 3: Combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners**

| | | Admin | Other Current | Grants | Gross Resource Expenditure | A in A | Net Total | Estimate | Saving/ (Excess) | Prior-Year Outturn |
|---|---|---|---|---|---|---|---|---|---|---|
| **Spending in Departmental Expenditure Limits (DEL)** | | | | | | | | | | |
| ***Central Government spending*** | | | | | | | | | | |
| A | Administration | 668,414 | 21,435 | 12,956 | 702,805 | (415,073) | 287,732 | 324,201 | 36,469 | 256,568 |
| **Spending in Annually Managed Expenditure (AME)** | | | | | | | | | | |
| ***Central Government spending*** | | | | | | | | | | |
| B | Pension benefits | – | – | 776,801 | 776,801 | – | 776,801 | 764,558 | (12,243) | 1,215,228 |
| C | Income support for the elderly and Pension Credit | – | – | 6,958,418 | 6,958,418 | – | 6,958,418 | 7,105,779 | 147,361 | 6,508,693 |
| D | TV licences for the over 75s | – | – | 487,842 | 487,842 | – | 487,842 | 482,125 | (5,717) | 460,573 |
| **Non-Budget** | | | | | | | | | | |
| E | Payments to the Social Fund | – | – | 2,481,236 | 2,481,236 | – | 2,481,236 | 2,493,415 | 12,179 | 2,304,694 |
| F | Pensions Grants in Aid | – | – | 31,617 | 31,617 | – | 31,617 | 28,995 | (2,622) | 37,148 |
| | | **668,414** | **21,435** | **10,748,870** | **11,438,719** | **(415,073)** | **11,023,646** | **11,199,073** | **175,427** | **10,782,904** |

**RfR 4: Improve the rights and opportunities for disabled people in a fair and inclusive society**

| | | Admin | Other Current | Grants | Gross Resource Expenditure | A in A | Net Total | Estimate | Saving/ (Excess) | Prior-Year Outturn |
|---|---|---|---|---|---|---|---|---|---|---|
| **Spending in Departmental Expenditure Limits (DEL)** | | | | | | | | | | |
| ***Central Government spending*** | | | | | | | | | | |
| A | Administration | 258,236 | 111 | – | 258,347 | (1,471) | 256,876 | 274,638 | 17,762 | 203,315 |
| B | Motability administration | – | – | 2,960 | 2,960 | (152) | 2,808 | 2,800 | (8) | 2,640 |

| | | 2006-07 | | | | | | | | Restated 2005-06 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 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 |
| **Spending in Annually Managed Expenditure (AME)** | | | | | | | | | | |
| ***Central Government spending*** | | | | | | | | | | |
| C | Attendance Allowance | – | – | 4,154,186 | 4,154,186 | (2,503) | 4,151,683 | 4,181,144 | 29,461 | 3,924,095 |
| D | Disability Living Allowance | – | – | 9,184,826 | 9,184,826 | (24,366) | 9,160,460 | 9,183,647 | 23,187 | 8,618,183 |
| E | Carer's Allowance | – | – | 1,191,943 | 1,191,943 | – | 1,191,943 | 1,215,750 | 23,807 | 1,149,141 |
| F | Vaccine Damage Payments | – | – | 389 | 389 | – | 389 | 500 | 111 | 500 |
| G | Grants to independent bodies | – | – | 265,421 | 265,421 | (470) | 264,951 | 261,988 | (2,963) | 240,778 |
| **Non-Budget** | | | | | | | | | | |
| H | Disability Rights Commission (Grant in Aid) | – | – | 20,916 | 20,916 | – | 20,916 | 21,414 | 498 | 21,641 |
| | | **258,236** | **111** | **14,820,641** | **15,078,988** | **(28,962)** | **15,050,026** | **15,141,881** | **91,855** | **14,160,293** |
| **RfR 5 : Corporate contracts and support services** | | | | | | | | | | |
| **Spending in Departmental Expenditure Limits (DEL)** | | | | | | | | | | |
| ***Central Government spending*** | | | | | | | | | | |
| A | Administration | 1,015,405 | 34,194 | 9,426 | 1,059,025 | (310,755) | 748,270 | 835,642 | 87,372 | 1,928,993 |
| | | **1,015,405** | **34,194** | **9,426** | **1,059,025** | **(310,755)** | **748,270** | **835,642** | **87,372** | **1,928,993** |
| | | **6,009,568** | **854,310** | **60,033,138** | **66,897,016** | **(2,655,849)** | **64,241,167** | **65,571,995** | **1,330,828** | **62,375,821** |

## 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 | 2006-07 Outturn compared with Estimate Saving/ (Excess) | Restated 2005-06 Outturn |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| Net Resource Outturn | 2 | 64,241,167 | 65,571,995 | 1,330,828 | 62,375,821 |
| Non-supply Expenditure | 16b | 61,717,445 | 62,400,714 | 683,269 | 59,654,824 |
| Non A in A operating income | | 1,111,733 | 1,112,047 | 314 | 1,083,474 |
| Excess of Social Fund Operating cost expenditure over Social Fund grant | | (137,804) | (152,930) | (15,126) | 57,033 |
| Income payable to the Consolidated Fund (excess A in A) | | (1,931) | – | 1,931 | – |
| Income payable to the Consolidated Fund (non A in A) | | (7) | – | 7 | (97,251) |
| Other non-voted expenditure | | 325 | 845 | 520 | – |
| **Net operating cost** | | **126,930,928** | **128,932,671** | **2,001,743** | **123,073,901** |

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

### (b) Outturn against final Administration Budget

| | Budget | 2006-07 Outturn | Restated 2005-06 Outturn |
|---|---|---|---|
| | £000 | £000 | £000 |
| Gross Administration Budget | 6,176,683 | 6,009,568 | 6,012,684 |
| Income allowable against the Administration Budget | (125,394) | (132,964) | (152,223) |
| Non-Voted expenditure within the Administration Budget | 1,310 | 249 | 9,753 |
| **Net outturn against final Administration Budget** | **6,052,599** | **5,876,853** | **5,870,214** |

## 4. Reconciliation of resources to cash requirement

| | Note | 2006-07 Estimate | 2006-07 Outturn | Net total outturn compared with Estimate: saving/ (excess) | Restated 2005-06 Prior Year Outturn |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| Resource Outturn | 2 | 65,571,995 | 64,241,167 | 1,330,828 | 62,375,821 |
| Capital: | | | | | |
| Acquisition of fixed assets | 32c | 210,154 | 197,835 | 12,319 | 385,759 |
| Investments | | – | – | – | – |
| Non-Operating Cost A in A | | | | | |
| Proceeds of fixed asset disposals | 7 | (3,876) | (2,553) | (1,323) | (8,700) |
| Accruals adjustments: | | | | | |
| Non-cash items | 10b | (1,015,478) | (1,106,059) | 90,581 | (497,377) |
| Changes in working capital other than cash | | 1,261,239 | (511,317) | 1,772,556 | 1,071,446 |
| Changes in creditors falling due after more than one year | | – | – | – | – |
| Use of provision | | 60,487 | 54,636 | 5,851 | 72,750 |
| Cash receipts surrenderable to the Consolidated Fund | | – | – | – | (50,269) |
| **Net Cash Requirement** | | **66,084,521** | **62,873,709** | **3,210,812** | **63,349,430** |

**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 2006-07 Income | Forecast 2006-07 *Receipts* | Outturn 2006-07 Income | Outturn 2006-07 *Receipts* |
|---|---|---|---|---|
| | £000 | *£000* | £000 | *£000* |
| Operating income and receipts – excess A in A | – | – | 1,931 | *1,931* |
| Other operating income and receipts not classified as A in A | – | – | 7 | *7* |
| | – | – | 1,938 | *1,938* |
| Non-operating income and receipts – excess A in A | – | – | – | – |
| Other non-operating income and receipts not classified as A in A | – | – | 15,630 | *41,760* |
| 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*** | **17,568** | ***43,698*** |

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

| | Note | 2006-07 £000 | Restated 2005-06 £000 |
|---|---|---|---|
| Operating income | 14 | 1,074,787 | 1,019,478 |
| Adjustments for transactions between RfRs | | – | – |
| Gross income | | 1,074,787 | 1,019,478 |
| NIF & other Admin adjustments | | 1,108,132 | 1,051,730 |
| Netted off gross expenditure | | 474,868 | 485,467 |
| Income authorised to be appropriated-in-aid | | (2,655,849) | (2,465,170) |
| Operating income payable to the Consolidated Fund | 5 | **1,938** | **91,505** |

## 7. Non-Operating A in A income

| | 2006-07 Income £000 | 2006-07 *Receipts* *£000* | 2005-06 Income £000 | 2005-06 *Receipts* *£000* |
|---|---|---|---|---|
| Proceeds from disposal of fixed assets | 2,553 | *2,553* | 8,700 | *8,700* |

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. In 2005-06 the Department received £6.0 million in respect of the sale of Land and Buildings and £2.7 million from the sale of vehicles.

## 8. Staff Numbers and Related Costs

### (a) Staff costs

Staff costs comprise:

| | 2006-07 Permanently employed staff £000 | Others £000 | Ministers £000 | Special Advisers £000 | Total £000 | Restated 2005-06 Total £000 |
|---|---|---|---|---|---|---|
| Wages and salaries | 2,417,732 | 72,044 | 327 | 147 | 2,490,250 | 2,495,804 |
| Employer's National Insurance | 166,882 | 1,449 | 32 | 15 | 168,378 | 170,078 |
| Superannuation and Pension costs | 474,421 | 141 | – | – | 474,562 | 518,152 |
| | **3,059,035** | **73,634** | **359** | **162** | **3,133,190** | **3,184,034** |
| Non-cash Staff costs | 467 | – | – | – | 467 | (1,203) |
| | **3,059,502** | **73,634** | **359** | **162** | **3,133,657** | **3,182,831** |
| Less recoveries in respect of outward secondments | (7,027) | – | – | – | (7,027) | (4,463) |
| **Total Net Costs** | **3,052,475** | **73,634** | **359** | **162** | **3,126,630** | **3,178,368** |

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 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation: (www.civilservice-pensions.gov.uk).

For 2006-07, employers' contributions of £434.5 million were payable to the PCSPS (2005-06 £484.4 million) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2005-06 were between 16.2% and 24.6%). 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 2006-07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners. In addition, an amount of £2.7 million (2005-06 £3.3 million) was payable in respect of the Local Government Pension Scheme (LGPS) contributions for staff employed by the Rent Service.

Outstanding contributions amounting to £39.1 million (2005-06 £31.1 million) were payable to the Civil Superannuation Vote at 31 March 2007 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 £606,477 (2005-06 £511,866) 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% (2005-06 3% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £34,072 (2005-06 £29,992), 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 Nil. Contributions prepaid at that date were Nil.

In 2006-07 216 persons (2005-06 177 persons) retired on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £360,783 (2005-06 £847,436). 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.

| | | | 2006-07 Number | | | Restated 2005-06 Number |
|---|---|---|---|---|---|---|
| **Objective** | **Permanent staff** | **Others** | **Ministers** | **Special Advisers** | **Total** | **Total** |
| 1 (Children) | 11,895.0 | 368.0 | – | – | 12,263.0 | **11,189.0** |
| 2 (Work) | 79,279.0 | 1,973.0 | 6.0 | 2.0 | 81,260.0 | **85,055.0** |
| 3 (Pensions) | 14,842.0 | 246.0 | – | – | 15,088.0 | **17,511.0** |
| 4 (Disabled) | 6,790.0 | 16.0 | – | – | 6,806.0 | **7,010.0** |
| 5 (Payment Accuracy) | 588.0 | – | – | – | 588.0 | **610.0** |
| **Total** | **113,394.0** | **2,603.0** | **6.0** | **2.0** | **116,005.0** | **121,375.0** |

As at 31 March 2007, 112,016.2 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 | | 2006-07 | | Restated 2005-06 |
|---|---|---|---|---|---|
| | | | £000 | | £000 |
| Goods and Services | 9a | | 943,528 | | 1,202,914 |
| Accommodation costs | | | 270,578 | | 355,299 |
| Rentals under operating leases: | | | | | |
| Hire of plant and machinery | | 4,286 | | 7,535 | |
| Other operating leases | | 11,622 | | 9,598 | |
| | | | 15,908 | | 17,133 |
| Interest charges | | | 23 | | 2 |
| PFI service charges: | | | | | |
| Off-balance sheet contracts | | 533,238 | | 606,461 | |
| Service element of on-balance sheet contracts | | 3,169 | | 3,062 | |
| | | | 536,407 | | 609,523 |
| Audit fee for HSE | 9b | | 94 | | 83 |
| Compensation payments to customers | | | 12,072 | | 17,563 |
| Non-cash items | 10 | | 386,307 | | 295,753 |
| Other | 9c | | 888,882 | | 608,754 |
| | | | **3,053,799** | | **3,107,024** |

a. Goods and Services expenditure of £0.9 billion (2005-06 £1.2 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 (2005-06 £64.9 million) and Post Office Card Account costs amounting to £151.9 million (2005-06 £200.6 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 in respect of non-audit work during 2006-07 and 2005-06.

c. Other costs of £0.9 billion (2005-06 £0.6 billion) mainly relate to I.T. services and maintenance payments.

## 10. Other Administration Costs: Non-cash items

(a)

| | Note | 2006-07 | Restated 2005-06 |
|---|---|---|---|
| | | £000 | £000 |
| Notional costs | 11 | 34,435 | 5,361 |
| Depreciation of fixed assets | 21c/22c | 164,559 | 131,293 |
| (Profit)/Loss on disposal of fixed assets | 21c | 11,125 | (284) |
| Impairment of fixed assets | 21b/22b | 24,499 | 23,269 |
| Amortisation of prepayments | | 97,392 | 32,200 |
| Provisions: | | | |
| Movement in year | | 45,233 | 101,737 |
| HSE Chairmen's Pension | | – | 564 |
| Unwinding of discount | | 1,309 | 992 |
| Other | | 7,755 | 621 |
| | | **386,307** | **295,753** |

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

| | Note | 2006-07 £000 | 2006-07 £000 | Restated 2005-06 £000 | Restated 2005-06 £000 |
|---|---|---|---|---|---|
| Administration non-cash transactions | 10a | | 386,307 | | 295,753 |
| Staff non-cash transactions | 8a | | 467 | | (1,203) |
| Programme non-cash transactions | 17 | 705,902 | | 186,646 | |
| Less: Social Fund capital charge | 20 | (16,338) | | (17,478) | |
| NIF capital charge | 16b | 29,737 | | 33,676 | |
| | | | 719,301 | | 202,844 |
| Non-cash income: | | | | | |
| Government Grant Reserve | 31b | | (16) | | (17) |
| | | | **1,106,059** | | **497,377** |

## 11. Notional administration costs

Certain services are provided and received by the Department without the transfer of cash. An amount of £34.4 million (2005-06 £5.4 million) has been included in the net cost of operations to reflect these costs and is comprised as follows:

| | Note | 2006-07 £000 | Restated 2005-06 £000 |
|---|---|---|---|
| Cost of capital charge | | 32,122 | 16,041 |
| Auditors remuneration and expenses | 11a | 2,313 | 1,850 |
| Other Government Departments | 30 | – | (12,530) |
| | | **34,435** | **5,361** |

a. The audit fee represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. There were no fees in respect of non-audit work during 2006-07 and 2005-06. £320,000 (2005-06 £230,000) 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 | 2006-07 £000 | Restated 2005-06 £000 |
|---|---|---|---|
| Administration Costs | 10a | 386,307 | 295,753 |
| Staff non-cash costs | 8a | 467 | (1,203) |
| Programme Costs | 17 | 705,902 | 186,646 |
| Programme Income | | – | (46,976) |
| Income: Government Grant Reserve | 31b | (16) | (17) |
| | | **1,092,660** | **434,203** |

## 13. Net Programme Costs

| | Note | 2006-07 £000 | Restated 2005-06 £000 |
|---|---|---|---|
| Current grants and other current expenditure | 13a | 58,498,004 | 57,323,016 |
| Research and Development | | 15,522 | 19,904 |
| Programme overheads | 17 | 872,030 | 262,790 |
| Non-Supply expenditure: contributory benefits | 16a | 61,765,723 | 59,667,867 |
| Agency payments on behalf of EU to third parties | 13b | 666,980 | 529,947 |
| **Gross programme spend** | | **121,818,259** | **117,803,524** |
| Other programme income | | (164,287) | (183,194) |
| EU income | | (759,552) | (687,714) |
| **Net programme costs** | | **120,894,420** | **116,932,616** |

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. European Union (EU) income and payments relate to funding received and payments made from the European Social Fund (ESF), which provides 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 | 2006-07 Total | Restated 2005-06 Total |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Administration** | | | | | | | |
| Fees and charges to other government departments | 46 | 45,825 | 4,599 | 467 | 12,164 | 63,101 | 15,940 |
| Income from mortgage lenders | – | 570 | 482 | – | 363 | 1,415 | 1,598 |
| Amortisation of Government Grants | 1 | – | – | – | 15 | 16 | 17 |
| Income from outside bodies | 132 | 9,730 | 1,128 | 101 | 584 | 11,675 | 24,307 |
| Income from accommodation | – | – | – | – | 14,832 | 14,832 | 17,808 |
| Law costs from defendants | – | – | – | – | 1,900 | 1,900 | 1,440 |
| International labour organisation | – | – | – | – | – | – | 9,489 |
| Single International Programme | – | – | – | – | – | – | 21,671 |
| European Union division | – | – | – | – | – | – | 2,750 |
| Pension levy income | – | – | – | – | – | – | – |
| Secondments | – | 2,725 | – | – | 4,302 | 7,027 | 4,463 |
| HSE Administrative income | – | 50,853 | – | – | – | 50,853 | 45,823 |
| Other miscellaneous income | – | 5 | – | – | 124 | 129 | 3,264 |
| | | | | | | **150,948** | **148,570** |
| **Programme** | | | | | | | |
| Benefit income | | | | | | | |
| – New Deal | – | 1,895 | – | – | – | 1,895 | 1,511 |
| – Help for unemployed people | – | 563 | – | – | – | 563 | 24,083 |
| – Income Support | – | 101,878 | – | – | – | 101,878 | 103,591 |
| – Jobseeker's Allowance | – | 1,381 | – | – | – | 1,381 | 1,398 |
| – Motability receipts | – | – | – | 600 | – | 600 | 634 |
| Pension Protection Fund | – | – | 43,897 | – | – | 43,897 | 41,140 |
| Other programme income | – | 966 | – | 800 | – | 1,766 | – |
| ESF income | – | 116,024 | – | – | – | 116,024 | 60,522 |
| EU income where DWP acts as agent for payments to third parties | – | 643,528 | – | – | – | 643,528 | 529,947 |
| Exchange rate gains | – | – | – | – | – | – | 97,245 |
| HSE Programme income | – | 9,215 | – | – | – | 9,215 | 7,872 |
| | | | | | | **920,747** | **867,943** |
| NIF income | | | | | | **3,092** | **2,965** |
| | | | | | | **1,074,787** | **1,019,478** |

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

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. Comparatives are not available.

| | Income | 2006-07 Full Cost | Surplus |
|---|---|---|---|
| | £000 | £000 | £000 |
| Income from External Customers | 349,256 | 341,479 | 7,777 |
| Income from Other Government Departments | 725,531 | 725,356 | 175 |
| | **1,074,787** | **1,066,835** | **7,952** |

## 15. Analysis of Net Operating Cost by Spending Body

| | 2006-07 Outturn | Restated 2005-06 Outturn |
|---|---|---|
| | £000 | £000 |
| DWP Head Office and Corporate and Shared Services | 120,553,152 | 116,613,833 |
| Child Support Agency | 520,343 | 465,091 |
| Jobcentre Plus | 4,494,118 | 4,554,570 |
| The Pension Service | 787,441 | 858,016 |
| Health and Safety Commission and Executive | 233,736 | 239,542 |
| The Rent Service | 35,772 | 36,493 |
| Disability and Carers Service | 306,366 | 306,356 |
| | **126,930,928** | **123,073,901** |

## 16. Non-Supply Expenditure

### (a) Contributory Benefits

| | 2006-07 | Restated 2005-06 |
|---|---|---|
| | £000 | £000 |
| Pensions Benefit | | |
| Retirement Benefit | | |
| Basic element | 43,748,292 | 41,754,745 |
| Earnings-related component | 9,866,356 | 9,629,562 |
| Christmas Bonus | 125,848 | 123,873 |
| Widows' Benefit | | |
| Basic element | 491,536 | 540,585 |
| Earnings-related component | 130,273 | 152,110 |
| Bereavement Benefits | 168,683 | 181,378 |
| Unemployment Benefits | | |
| Jobseeker's Allowance – Contribution Based | 477,146 | 485,447 |
| Unemployment Benefit | (3) | (56) |
| Sickness Benefit | (148) | (409) |
| Incapacity Benefit | | |
| Short-term and Long-term | 6,287,594 | 6,300,305 |
| Earnings-related component | 289,669 | 337,067 |
| Invalidity Benefit | 5,098 | (357) |
| Family Benefits | | |
| Maternity Allowance | 175,379 | 163,617 |
| | **61,765,723** | **59,667,867** |

### (b) Total Non-Supply expenditure

| | Note | 2006-07 | 2005-06 |
|---|---|---|---|
| | | £000 | £000 |
| Contributory Benefits | 16a | 61,765,723 | 59,667,867 |
| NIF income | | (3,092) | (2,965) |
| NIF write-offs and movement on bad debt provision | | (15,637) | 25,646 |
| NIF Movement on CRU Provision | | 188 | (2,048) |
| NIF capital charge | | (29,737) | (33,676) |
| | 3a | **61,717,445** | **59,654,824** |

## 17. Programme Overheads

| | Note | 2006-07 £000 | 2006-07 £000 | 2005-06 £000 | 2005-06 £000 |
|---|---|---|---|---|---|
| Programme balances written off | 19 | | 166,128 | | 76,144 |
| Non-Cash Items: | | | | | |
| Movement in provision for doubtful debt | 18 | (6,200) | | 170,257 | |
| Movement in other provisions | | 711,418 | | (597) | |
| Unwinding of discount | 28 | 8,343 | | 33,649 | |
| Notional Costs: | | | | | |
| Cost of Capital charge | 20 | (7,659) | | (16,663) | |
| | 10b | | 705,902 | | 186,646 |
| | | | **872,030** | | **262,790** |

## 18. Provision for doubtful debt: Programme

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

| | 2006-07 £000 | 2005-06 £000 |
|---|---|---|
| Contributory Benefits | (49,205) | 14,263 |
| Non-Contributory Benefits | 42,763 | 94,277 |
| Social Fund Payments | 242 | 50,141 |
| European Social Fund | – | 11,576 |
| | **(6,200)** | **170,257** |

## 19. Programme balances written off

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

| | 2006-07 £000 | 2005-06 £000 |
|---|---|---|
| Contributory Benefits | | |
| Pensions Benefits | 26,800 | 8,789 |
| Incapacity Benefit | 6,384 | 2,548 |
| Other | 384 | 46 |
| Non-Contributory Benefits | | |
| Disability Benefits | 21,674 | 11,714 |
| Income Support (including Pension Credit) | 58,927 | 7,139 |
| Family Benefits | 4 | 5 |
| Other | 4,131 | 870 |
| Social Fund Payments | | |
| Funeral Payments | 46,147 | 41,943 |
| Other | 1,677 | 3,090 |
| | **166,128** | **76,144** |

Programme balances written off significantly increased during 2006-07 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.

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 £40 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 | 2006-07 £000 | 2005-06 £000 |
|---|---|---|---|
| Cost of Capital charged on: | | | |
| Cash with Paying Agents | | 991 | 2,008 |
| Social Fund Payments | | 16,338 | 17,478 |
| NIF | 16b | (29,737) | (33,676) |
| Other Programme net assets (excluding amounts due to HM Treasury and Paymaster balances) | | 4,749 | (2,473) |
| | | **(7,659)** | **(16,663)** |

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 2006 | | 63,487 | 702,179 | 308,230 | 26,100 | 25,962 | 39,611 | 94,481 | 81,667 | 1,341,717 |
| Additions | 21a | 30 | 2,390 | 5,248 | 728 | 1,682 | 4,963 | 161,618 | (1,066) | 175,593 |
| Disposals | | (245) | (67) | (94,982) | (1,581) | (1,597) | (11,769) | – | – | (110,241) |
| Impairments | 21b | (89) | – | (13,277) | (45) | – | (2) | (16,923) | – | (30,336) |
| Reclassifications | | – | 24,526 | (17,857) | (259) | – | – | (97,246) | 90,816 | (20) |
| Revaluations | 21b | 1,339 | – | 417 | (134) | 461 | 350 | – | – | 2,433 |
| **At 31 March 2007** | | 64,522 | 729,028 | 187,779 | 24,809 | 26,508 | 33,153 | 141,930 | 171,417 | 1,379,146 |
| **Depreciation** | | | | | | | | | | |
| At 1 April 2006 | | 1,557 | 122,637 | 190,226 | 20,782 | 11,567 | 22,285 | – | 8,992 | 378,046 |
| Charged in year | 21c | 1,138 | 82,261 | 41,934 | 1,008 | 2,616 | 5,742 | – | 34,509 | 169,208 |
| Disposals | | (66) | (2) | (83,764) | (1,544) | (1,494) | (9,693) | – | – | (96,563) |
| Impairments | 21b | – | – | (9,794) | (22) | – | 5 | – | – | (9,811) |
| Reclassifications | | – | – | – | – | – | – | – | – | – |
| Revaluations | 21b | 57 | – | 271 | (96) | 193 | 164 | – | – | 589 |
| **At 31 March 2007** | | 2,686 | 204,896 | 138,873 | 20,128 | 12,882 | 18,503 | – | 43,501 | 441,469 |
| **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** |
| **Net Book Value at 31 March 2006** | | 61,930 | 579,542 | 120,590 | 5,382 | 14,400 | 17,409 | 95,258 | 72,675 | 967,186 |
| Restatements | | – | – | (2,586) | (64) | (5) | (83) | (777) | – | (3,515) |
| **Restated Net Book Value at 31 March 2006** | | **61,930** | **579,542** | **118,004** | **5,318** | **14,395** | **17,326** | **94,481** | **72,675** | **963,671** |
| **Asset financing:** | | | | | | | | | | |
| Owned | | 5,057 | 524,132 | 48,906 | 4,681 | 11,100 | 14,650 | 141,215 | 127,916 | 877,657 |
| Finance leased | | – | – | – | – | – | – | – | – | – |
| On-balance sheet PFI Contracts | | 56,779 | – | – | – | 2,526 | – | – | – | 59,305 |
| PFI residual interests | | – | – | – | – | – | – | 715 | – | 715 |
| **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** |

a. Total additions in the year were £175.6 million (2005-06 £376.8 million). This consisted of £174.7 million (2005-06 £376.6 million) of capital expenditure and £0.9 million (2005-06 £0.2 million) of assets which had been purchased prior to 2006-07 but which had previously been charged as expenditure.

b. The net increase in asset values arising from the revaluation of fixed assets of £1.8 million (2005-06 £1.5 million) has been transferred to the Revaluation Reserve. The impairment in fixed assets arising from the permanent decrease in value of £20.5 million (2005-06 £23.3 million) in excess of previous revaluation has been charged to the Operating Cost Statement.

c. Total depreciation in the year was £169.2 million (2005-06 £117.9 million). This consisted of £158.6 million (2005-06 £128.7 million) charged to the Operating Cost Statement and £10.6 million (2005-06 £(10.8) million) relating to assets purchased prior to 2006-07 charged to the General Fund. The in year depreciation charge for On-balance Sheet PFI Contracts is £1.0 million (2005-06 £1.0 million). The loss on sale of fixed assets charged to the Operating Cost Statement in the year is £11.1 million (2005-06 profit of £0.3 million).

Land and Buildings comprise the following:

| | Freeholds | Short Leaseholds | Total |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| **Cost or Valuation** | | | |
| At 1 April 2006 | 5,360 | 58,127 | 63,487 |
| Additions | 30 | - | 30 |
| Disposals | (20) | (225) | (245) |
| Reclassification | – | – | – |
| Impairments | (89) | – | (89) |
| Revaluations | 88 | 1,251 | 1,339 |
| **At 31 March 2007** | **5,369** | **59,153** | **64,522** |
| **Depreciation** | | | |
| At 1 April 2006 | 146 | 1,411 | 1,557 |
| Charged in year | 161 | 977 | 1,138 |
| Disposals | (2) | (64) | (66) |
| Reclassification | – | – | – |
| Revaluations | 7 | 50 | 57 |
| **At 31 March 2007** | **312** | **2,374** | **2,686** |
| **Net Book Value at 31 March 2007** | **5,057** | **56,779** | **61,836** |
| **Net Book Value at 31 March 2006** | **5,214** | **56,716** | **61,930** |

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

| | | 2006-07 | Restated 2005-06 |
|---|---|---|---|
| | **Note** | **£000** | **£000** |
| Capital Creditors and Accruals at 1 April | 27 | 141,479 | 59,919 |
| Capital Prepayments at 1 April | 25 | – | (271) |
| Movement on long-term creditors | | 916 | 1,533 |
| Restatement | | 474 | (1,920) |
| Capital additions | | 174,681 | 376,638 |
| Capital Prepayments at 31 March | 25 | – | – |
| Capital Creditors and Accruals at 31 March | 27 | (106,422) | (141,479) |
| **Purchases of Tangible Fixed Assets as per Note 32b** | | **211,128** | **294,420** |

## 22. Intangible Fixed Assets

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

| | Purchased software licences |
|---|---|
| | **£000** |
| **Cost or valuation** | |
| At 1 April 2006 | 44,539 |
| Additions | 22,179 |
| Disposals | (524) |
| Reclassifications | 20 |
| Impairments | (3,974) |
| Revaluation | – |
| **At 31 March 2007** | **62,240** |
| **Amortisation** | |
| At 1 April 2006 | 4,806 |
| Charged in year | 5,758 |
| Disposals | (524) |
| Reclassifications | – |
| Impairments | – |
| Revaluation | – |
| **At 31 March 2007** | **10,040** |
| **Net book value at 31 March 2007** | **52,200** |
| **Net book value at 31 March 2006** | **39,733** |

a. Total additions in the year were £22.2 million (2005-06 £11.3 million). This consisted of £23.2 million (2005-06 £11.0 million) of capital expenditure and £(1.0) million (2005-06 £0.3 million) of assets which had been purchased prior to 2006-07 but which had previously been charged as expenditure.

b. The impairment in fixed assets arising from the permanent decrease in value of £4.0 million (2005-06 £Nil) in excess of previous revaluation has been charged to the Operating Cost Statement.

c. Total depreciation in the year was £5.8 million (2005-06 £4.8 million). This consisted of £6.0 million (2005-06 £2.6 million) charged to the Operating Cost Statement and £(0.2) million (2005-06 £Nil) relating to assets purchased prior to 2006-07 charged to the General Fund.

Cash Flow Reconciliation

| | | 2006-07 | 2005-06 |
|---|---|---|---|
| | **Note** | **£000** | **£000** |
| Capital Creditors and Accruals at 1 April | | 58 | – |
| Capital additions | | 23,154 | 11,041 |
| Capital Prepayments at 31 March | | – | – |
| Capital Creditors and Accruals at 31 March | 27 | – | (58) |
| **Purchases of Intangible Fixed Assets as per Note 32b** | | **23,212** | **10,983** |

## 23. Investments

| | 2006-07 Working Links (Employment) Ltd Share Capital |
|---|---|
| | £000 |
| Balance at 1 April 2006 | 1,123 |
| Additions | – |
| Disposals | – |
| Revaluations | 310 |
| **Balance at 31 March 2007** | **1,433** |

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 2007. 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 2007 | 4,297 |
| Turnover | 63,589 |
| Surplus/profit for the year (before financing) | 1,286 |

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

## 24. Stocks and Work in Progress

| | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |
| Consumables | – | 48 |
| Work in Progress | 721 | 446 |
| Finished Stock for sale | 804 | 755 |
| | **1,525** | **1,249** |

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

## 25. Debtors

### 25(a) Analysis by type

| Administration Debtors | Note | 31 March 2007 £000 | Restated 31 March 2006 £000 |
|---|---|---|---|
| **Amounts falling due within one year** | | | |
| Trade debtors | | 25,672 | 28,393 |
| Deposits and Advances | 25a | 2,719 | 2,492 |
| Amounts due from Other Government Departments | | 73,420 | 66,298 |
| VAT | | 34,031 | 73,904 |
| Amounts owed by Working Links (Employment) Ltd | | 100 | 2 |
| Other debtors | | 88,661 | 38,582 |
| Prepayments and accrued income | | 45,082 | 76,564 |
| Early departure prepayment | 28a | 125 | 369 |
| Accommodation prepayment | | 948 | 948 |
| TIES prepayment | | 2,791 | 2,791 |
| TREDSS prepayment | | 101,491 | 48,734 |
| HSE prepayment | | 154 | 153 |
| Provision for bad and doubtful debts | | (21,889) | (14,699) |
| Amounts due from the Consolidated Fund | | – | 106,605 |
| | | **353,305** | **431,136** |
| **Amounts falling due after more than one year** | | | |
| Deposits and advances | 25a | 1,054 | 1,230 |
| Prepayments & accrued income | | 28 | 71 |
| Early departure prepayment | 28a | 26 | 151 |
| Accommodation prepayment | | 18,970 | 19,918 |
| TIES prepayment | | 27,907 | 30,698 |
| TREDSS prepayment | | 245,271 | 166,520 |
| HSE prepayment | | 4,076 | 4,230 |
| | | **297,332** | **222,818** |

**Programme Debtors**

| | Note | Gross Debtors | Provision for Doubtful Debt | 31 March 2007 Net Debtors | Restated 31 March 2006 Net Debtors |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| **Amounts falling due within one year** | | | | | |
| Benefit Overpayments | | | | | |
| Contributory Benefits | 25b | 80,307 | (14,113) | 66,194 | 22,823 |
| Non-Contributory Benefits | 25b | 216,059 | (88,558) | 127,501 | 51,342 |
| Housing Benefit and Council Tax | 25c | 156,593 | – | 156,593 | 160,047 |
| Social Fund | | 183 | – | 183 | 42 |
| Prepayments | | | | | |
| Contributory Benefits | | 144,688 | – | 144,688 | 222,499 |
| Non-Contributory Benefits | | 71,836 | – | 71,836 | 101,755 |
| Local Authorities | | 48,850 | – | 48,850 | – |
| Social Fund | | | | | |
| Funeral Payments | | 51,827 | (50,777) | 1,050 | 77 |
| Other Loans | | 421,378 | (741) | 420,637 | 410,144 |
| European Social Fund & Other EU Debtors | 25e/27c | 818,900 | (18,968) | 799,932 | 1,252,961 |
| Other Programme Debtors | 25d | 6,878 | – | 6,878 | 8,060 |
| | | **2,017,499** | **(173,157)** | **1,844,342** | **2,229,750** |
| **Amounts falling due after more than one year** | | | | | |
| Benefit Overpayments | | | | | |
| Contributory Benefits | 25b | 112,380 | (23,067) | 89,313 | 69,419 |
| Non-Contributory Benefits | 25b | 1,272,271 | (523,972) | 748,299 | 626,789 |
| Social Fund | | – | – | – | 91 |
| Social Fund | | | | | |
| Funeral Payments | | 48,279 | (41,776) | 6,503 | 7,516 |
| Other Loans | | 393,568 | (2,369) | 391,199 | 266,274 |
| Other Programme Debtors | | 711 | – | 711 | 1,729 |
| | | **1,827,209** | **(591,184)** | **1,236,025** | **971,818** |
| **Total Debtors** | | | | **3,731,004** | **3,855,522** |
| Of which | | | | | |
| Due within one year | | | | 2,197,647 | 2,660,886 |
| Due after one year | | | | 1,533,357 | 1,194,636 |

a. Deposits and advances due within one year includes £0.2 million (2005-06 £0.1 million) of house purchase advances due from 197 (2005-06 186) members of staff. Those due after more than one year include £1.1 million (2005-06 £1.2 million) due from 186 (2005-06 232) members of staff.

b. Included in Contributory Benefits overpayments is an amount of £3.4 million (2005-06 £3.6 million) in respect of Compensation Recovery Unit debtors. The amount included within Non-Contributory Benefit overpayments is £9.8 million (2005-06 £7.3 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 £64.3 million (2005-06 £93.1 million) which relates to amounts due which, once received, will be payable to the Consolidated Fund (See also Note 27).

### 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 | |
|---|---|---|---|---|---|
| | | 2006-07 | Restated 2005-06 | 2006-07 | Restated 2005-06 |
| | Note | £000 | £000 | £000 | £000 |
| Balances with other central government bodies | | 218,096 | 257,375 | – | – |
| Balances with local authorities | | 176,863 | 179,902 | – | – |
| Balances with NHS Trusts | | 17 | 15 | – | – |
| Balances with public corporations and trading funds | | 19,666 | 2,035 | – | – |
| Intra-government balances | | 414,642 | 439,327 | – | – |
| Balances with bodies external to government | | 1,783,005 | 2,221,559 | 1,533,357 | 1,194,636 |
| **Total debtors at 31 March** | 25(a) | **2,197,647** | **2,660,886** | **1,533,357** | **1,194,636** |

## 26. Cash at Bank and In Hand

| | Note | 2006-07 Total | Restated 2005-06 Total |
|---|---|---|---|
| | | £000 | £000 |
| Balance at 1 April | | 113,933 | 826,524 |
| Net change in cash balances | | 103,597 | (554,987) |
| **Balance at 31 March** | | **217,530** | **271,537** |
| Less Bank Overdraft reported in Creditors | 27 | (5,803) | (157,604) |
| | | **211,727** | **113,933** |
| The following balances at 31 March are held at: | | | |
| Office of HM Paymaster General | 26a | 206,552 | 112,518 |
| Commercial banks and Cash in Hand | | 5,175 | 1,415 |
| | | **211,727** | **113,933** |

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 2007 £000 | Restated 31 March 2006 £000 |
|---|---|---|---|
| **Administration Creditors** | | | |
| **Amounts falling due within one year** | | | |
| Taxation and social security | | 55,776 | 59,566 |
| Superannuation | | 39,095 | 31,133 |
| Trade creditors – non capital | | 49,692 | 138,983 |
| – capital | 21f/22 | 1,118 | 7,601 |
| Amounts due to other Government Departments | | 7,576 | 17,342 |
| Other creditors | | 11,381 | 37,936 |
| Accruals and deferred income | | 502,113 | 447,999 |
| Capital Accruals | 21f/22 | 45,249 | 74,797 |
| Bank Overdrafts | 26 | 5,803 | 157,604 |
| Amounts issued from the Consolidated Fund for Supply but not spent at year end | 30 | 29,952 | – |
| CFERs due to be paid to the Consolidated Fund – received | | 79,290 | 57,065 |
| CFERs due to be paid to the Consolidated Fund – receivable | 25e | 20,847 | 46,976 |
| Excess A in A due to the Consolidated Fund | 30 | 1,931 | – |
| | | **849,823** | **1,077,002** |
| **Amounts falling due after more than one year** | | | |
| Imputed finance lease element for on-balance sheet PFI contract | 21f | 60,055 | 59,139 |
| Other creditors | | 3,373 | 3,510 |
| | | **63,428** | **62,649** |
| **Programme Creditors** | | | |
| **Amounts falling due within one year** | | | |
| Accruals | | | |
| Contributory Benefits | | 1,028,006 | 981,190 |
| Non-Contributory Benefits | | 565,528 | 475,842 |
| Social Fund Benefits | | 191 | 282 |
| Local Authorities | | 5,589 | 27,744 |
| European Social Fund | | 349,566 | 272,801 |
| Encashment Control | 27a | 55,252 | 76,267 |
| Housing Benefit and Council Tax Benefit underpayments | 25c | 398,675 | 368,732 |
| CFERs due to be paid to the Consolidated Fund – received | | 4,003 | 66,920 |
| CFERs due to be paid to the Consolidated Fund – receivable | 25e | 43,412 | 46,104 |
| Excess A in A due to the Consolidated Fund | | – | – |
| Third Party Payments | 27b | 37,599 | 31,386 |
| Other Government Creditors | 27f | 285,886 | 17,204 |
| Other Programme Creditors | | 9,050 | 15,642 |
| European Social Fund & Other EU Creditors | 27c | 133,574 | 121,769 |
| | | **2,916,331** | **2,501,883** |
| **Amounts falling due after more than one year** | | | |
| European Social Fund | 27d | 278,780 | 286,381 |
| | | **278,780** | **286,381** |
| **Total Creditors** | | **4,108,362** | **3,927,915** |
| Of which | | | |
| Due within one year | | 3,766,154 | 3,578,885 |
| Due after one year | | 342,208 | 349,030 |

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 £278.8 million (31 March 2006 £286.4 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 £696.0 million (31 March 2006 £853.7 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.

f. Included within Other Government Creditors is a balance of £247.2 million (31 March 2006 £nil) relating to Statutory Sick Pay (SSP) and Statutory Maternity Pay (SMP). Following the Morris Review of the Actuarial Profession, responsibility for forecasting the amounts payable to the National Insurance Fund, in respect of recoveries by employers of SSP and SMP, transferred from the Government Actuary's Department (GAD) to DWP during 2006-07. DWP's estimate for both SSP and SMP combined is £247.2 million greater than GAD's, giving rise to a creditor balance as at 31 March 2007.

**27(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 | |
|---|---|---|---|---|---|
| | | 2006-07 | Restated 2005-06 | 2006-07 | 2005-06 |
| | Note | £000 | £000 | £000 | £000 |
| Balances with other central government bodies | | 575,995 | 419,191 | – | – |
| Balances with local authorities | | 409,902 | 403,432 | – | – |
| Balances with NHS Trusts | | 28 | 957 | – | – |
| Balances with public corporations and trading funds | | 5,779 | 8,432 | – | – |
| Intra-government balances | | 991,704 | 832,012 | – | – |
| Balances with bodies external to government | | 2,774,450 | 2,746,873 | 342,208 | 349,030 |
| **Total creditors at 31 March** | 27(a) | **3,766,154** | **3,578,885** | **342,208** | **349,030** |

## 28. Provisions for Liabilities and Charges

| | 31 March 2007 | Restated 31 March 2006 |
|---|---|---|
| | £000 | £000 |
| Early Departure provision (gross) | 117,665 | 127,315 |
| Other Administration provisions | 10,787 | 4,684 |
| Programme provisions | 972,714 | 256,737 |
| | **1,101,166** | **388,736** |

### Early departure and pension commitments

| | Gross Provision | | Prepayment (Note 28a) | | Net Provision | |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2006 (restated) | | 127,315 | | (520) | | 126,795 |
| Provided in year | | | | | | |
| New Early retirees | 39,725 | | – | | 39,725 | |
| Uplift | 777 | | – | | 777 | |
| | | 40,502 | | – | | 40,502 |
| Provisions not required written back | | (1,232) | | – | | (1,232) |
| Provisions utilised in year | | (50,148) | | 490 | | (49,658) |
| Unwinding of Discount | | 1,228 | | – | | 1,228 |
| Interest received on pre-funding | | – | | (121) | | (121) |
| **Balance at 31 March 2007** | | **117,665** | | **(151)** | | **117,514** |
| Payable within one year | | 41,328 | | (125) | | 41,203 |
| Payable after more than one year | | 76,337 | | (26) | | 76,311 |

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

### Other Administration provisions

| | Total (Note 28b) |
|---|---|
| | £000 |
| Balance at 1 April 2006 | 4,684 |
| Provided in year | 6,780 |
| Provisions not required written back | (78) |
| Utilised in year | (680) |
| Unwinding of discount | 81 |
| **Balance at 31 March 2007** | **10,787** |

### Programme provisions

| | Pneumoconiosis Payments (Note 28c) | Compensation Recovery Unit (Note 28d) | Financial Assistance Scheme (Note 28e) | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Balance at 1 April 2006 | 4,453 | 4,577 | 247,707 | 256,737 |
| Provided in year | – | 118 | 715,751 | 715,869 |
| Provisions not required written back | (4,453) | – | – | (4,453) |
| Utilised in year | – | – | (3,782) | (3,782) |
| Unwinding of discount | – | – | 8,343 | 8,343 |
| **Balance at 31 March 2007** | **–** | **4,695** | **968,019** | **972,714** |
| Payable within one year | | | | 965,262 |
| Payable after more than one year | | | | 18,239 |

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

c. Pneumoconiosis Provision – This provision has been made in respect of compensation payments that are made under the workers' Pneumoconiosis Compensation Payments Scheme. This is intended to compensate those suffering from certain dust diseases where they are unable to claim compensation by way of civil action in the courts. Award of Industrial Injuries Disablement Benefit is a precondition for payments to all sufferers and most dependants. Compensation payments of £5.2 million have been accrued for the year ending 31 March 2007 in Note 27.

d. 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.

e. FAS (Financial Assistance Scheme) – This scheme was announced in May 2004 and was created to provide assistance payments to individuals who face losses in their expected pensions due to their pension scheme winding up as a result of employers' insolvency. Assistance is limited to those schemes which wound up or began the process of winding up between 1 January 1997 and 5 April 2005. Originally aimed at scheme members who were within 3 years of their scheme's normal retirement age on 14 May 2004, this was extended to members within 15 years of scheme normal retirement as part of a package of amending regulations in December 2006. FAS tops up any pension in payment to a qualifying member to 80% of their expected core pension for members within 7 years of normal retirement age on 14 May 2004, to 65% for those between 7 and 11 years from normal retirement age and to 50% for those between 11 and 15 years. FAS payments are usually paid from age 65, are subject to a cap and de minimis and can also be paid to surviving spouses and civil partners of qualifying members (albeit at a lower level).

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 2007. 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 2007 % per annum** | **31 March 2006 % per annum** |
|---|---|---|
| Inflation | 3.2% | 3.1% |
| Salary increases | 4.7% | 4.6% |
| Pension increase | 3.2% | 3.1% |
| Discount rate | 5.4% | 4.9% |

| **Assets** | **Long Term Return % per Annum** | **Fund value at 31 March 2007 £000** | **Fund value at 31 March 2006 £000** |
|---|---|---|---|
| Equities | 7.7 | 32,026 | 28,948 |
| Bonds | 6.4 | 11,498 | 8,746 |
| Property | 6.8 | 6,520 | 5,414 |
| Cash | 4.9 | 1,380 | 2,821 |
| **Total** | **7.2** | **51,424** | **45,929** |

| **Net pensions deficit as at** | **31 March 2007** | | **31 March 2006** | |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| Estimated Employer Assets | | 51,424 | | 45,929 |
| Present Value of Scheme Liabilities | (55,252) | | (54,487) | |
| Present Value of Unfunded Liabilities | (419) | | (336) | |
| Total value of Liabilities | | (55,671) | | (54,823) |
| **Net Pension Deficit** | | **(4,247)** | | **(8,894)** |

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 2007** | **31 March 2006** |
|---|---|---|
| | **£000** | **£000** |
| Current Service Costs | 2,182 | 1,873 |
| Past Service Costs | – | 35 |
| Curtailments and Settlements | 11 | 114 |
| **Total Operating Charge** | **2,193** | **2,022** |

| **Amounts charged to Other Administration Costs** | **31 March 2007** | **31 March 2006** |
|---|---|---|
| | **£000** | **£000** |
| Expected Return on Employer Assets | 3,171 | 2,589 |
| Interest on Pension Scheme Liabilities | (2,720) | (2,448) |
| **Net Administration Costs** | **451** | **141** |

| **Analysis of Amount Recognised in Statement of Recognised Gains and Losses (SRGL)** | **31 March 2007** | **31 March 2006** |
|---|---|---|
| | **£000** | **£000** |
| Actual return less expected return on pension scheme assets | 449 | 5,812 |
| Experience losses arising on the scheme liabilities | (105) | (46) |
| Changes in Financial Assumptions Underlying the Present Value of the Scheme Liabilities | 3,370 | (5,047) |
| | **3,714** | **719** |

| Movement in Deficit During the Year | 31 March 2007 | 31 March 2006 |
|---|---|---|
| | £000 | £000 |
| Deficit at beginning of the year | (8,894) | (11,040) |
| Current Service Costs | (2,182) | (1,873) |
| Employer Contributions | 2,655 | 3,288 |
| Contributions in respect of Unfunded Benefits | 20 | 20 |
| Past Service Costs | – | (35) |
| Impact of settlement and curtailments | (11) | (114) |
| Other Finance Costs | 451 | 141 |
| Actuarial Gains | 3,714 | 719 |
| **Deficit at 31 March** | **(4,247)** | **(8,894)** |

| History of Experience Gains and Losses | 31 March 2007 | 31 March 2006 |
|---|---|---|
| | £000 | £000 |
| Difference Between the Expected and Actual Return on Assets | 449 | 5,812 |
| Value of Assets | 51,424 | 45,929 |
| **Percentage of Assets** | **0.9%** | **12.7%** |
| Experience Losses on Liabilities | (105) | (46) |
| Total Present Value of Liabilities | 55,671 | 54,823 |
| **Percentage of the Total Present Value of Liabilities** | **(0.2%)** | **(0.1%)** |
| Actuarial Gains Recognised in SRGL | 3,714 | 719 |
| Total Present Value of Liabilities | 55,671 | 54,823 |
| **Percentage of the Total Present Value of Liabilities** | **6.7%** | **(1.0%)** |

## Provision for Chairman of HSC

Provision has been made for the Chairman's pension in HSE's accounts as if he were a member of the PCSPS. The provision reflects the valuation made by the Government Actuaries Department (GAD) at 31 March 2007 and includes both provision for the pension of the current Chairman and also for retired Chairmen currently in receipt of a pension. This amounts to £1,270,000 and a breakdown of the GAD calculation is as follows:

| | 31 March 2007 |
|---|---|
| | £000 |
| Present value of scheme liabilities at start of year | 1,052 |
| Current service cost (net of employee contributions) | 28 |
| Employee contributions | 2 |
| Interest cost | 57 |
| Actuarial losses | 157 |
| Less: benefits paid | (26) |
| **Present value of scheme liabilities at end of year** | **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.

| | | 2006-07 | | Restated 2005-06 | |
|---|---|---|---|---|---|
| | Note | £000 | £000 | £000 | £000 |
| Balance at 1 April | | 796,570 | | (295,312) | |
| Restatement | | – | | (5,303) | |
| Adjusted opening balance | | | 796,570 | | (300,615) |
| Net Parliamentary Funding | | | | | |
| Financing – Current year | | 62,903,661 | | 62,690,646 | |
| Financing – Prior year | | 106,605 | | – | |
| Amounts drawn not spent – deemed Supply | | – | | 552,194 | |
| | | | 63,010,266 | | 63,242,840 |
| National Insurance Fund | | | 63,016,534 | | 60,915,874 |
| Year end adjustment | | | | | |
| Supply Creditor – current year | 27 | (29,952) | | – | |
| Supply Debtor – previous year clearance | 25 | (106,605) | | 106,605 | |
| Excess A in A | 27 | (1,931) | | – | |
| | | | (138,488) | | 106,605 |
| Net Transfer from Operating Activities | | | | | |
| Net Operating Cost | | (126,930,928) | | (123,073,901) | |
| CFERs repayable to Consolidated Fund | | (7) | | (6) | |
| | | | (126,930,935) | | (123,073,907) |
| Non Cash Charges | | | | | |
| Cost of Capital | | 24,463 | | (492) | |
| Auditors' remuneration | 11 | 2,313 | | 1,850 | |
| Non-cash capital additions | | (10,470) | | 11,165 | |
| Asset transfers to and from OGDs | | – | | 483 | |
| Other Government Departments | 11 | – | | (12,530) | |
| | | | 16,306 | | 476 |
| Transfer from Revaluation Reserve | 31a | | 376 | | 1,787 |
| Actuarial gain (loss) on pension | 29 | | 3,714 | | 719 |
| ESF Exchange Rate gains | | | – | | (97,245) |
| Other | | | (27) | | 36 |
| **Balance at 31 March** | | | **(225,684)** | | **796,570** |

## 31. Reserves

### (a) Revaluation Reserve

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

| | Note | 2006-07 £000 | Restated 2005-06 £000 |
|---|---|---|---|
| Balance at 1 April | | 10,184 | 9,501 |
| Prior Year restatement | | – | 1 |
| Arising on revaluation during the year (net) | | 2,154 | 2,469 |
| Transferred to General Fund in respect of realised element of Revaluation Reserve | 30 | (376) | (1,787) |
| **Balance at 31 March** | | **11,962** | **10,184** |

### (b) Government Grant Reserve

| | Note | 2006-07 £000 | 2005-06 £000 |
|---|---|---|---|
| Balance at 1 April | | 20 | 37 |
| Amortisation of Reserve | 10b | (16) | (17) |
| **Balance at 31 March** | | **4** | **20** |

## 32. Notes to the Consolidated Cash Flow Statement

### (a) Reconciliation of operating cost to operating cash flows

| | Note | 2006-07 £000 | Restated 2005-06 £000 |
|---|---|---|---|
| **Net operating cost** | | (126,930,928) | (123,073,901) |
| Adjustments for non-cash transactions | 12 | 1,092,660 | 434,203 |
| Interest element of Finance Lease payments | | 924 | 1,707 |
| (Increase)/Decrease in Stock | | (276) | 371 |
| (Increase) in Paying Agents | | (59,422) | (279,821) |
| (Increase)/Decrease in Debtors | | 124,518 | (298,610) |
| *Less: movements in debtors relating to items not passing through the OCS* | | (205,240) | (160,232) |
| Increase/(Decrease) in Creditors | | 338,051 | (888,806) |
| *Less: movements in creditors relating to items not passing through the OCS* | | 37,831 | 369,179 |
| Use of provisions | | (54,636) | (72,750) |
| **Net cash outflow from operating activities** | | **(125,656,518)** | **(123,968,660)** |

### (b) Analysis of capital expenditure and financial investment

| | Note | 2006-07 £000 | Restated 2005-06 £000 |
|---|---|---|---|
| Tangible fixed asset additions | 21f | (211,128) | (294,420) |
| Intangible fixed asset additions | 22 | (23,212) | (10,983) |
| Proceeds of disposal of fixed assets | 7 | 2,553 | 8,700 |
| **Net cash outflow from investing activities** | | **(231,787)** | **(296,703)** |

### (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 | 77 | – | – | 77 |
| Request for resources 2 | 136,667 | – | (313) | 136,354 |
| Request for resources 3 | 66,918 | – | – | 66,918 |
| Request for resources 4 | 2 | – | – | 2 |
| Request for resources 5 | 30,618 | – | (2,240) | 28,378 |
| Net movement in debtors/creditors | (36,447) | – | – | (36,447) |
| In year Capital additions | **197,835** | **–** | **(2,553)** | **195,282** |
| Prior year additions | (63) | – | – | (63) |
| **Total 2006-07** | **197,772** | **–** | **(2,553)** | **195,219** |
| **Total 2005-06 (Restated)** | **388,084** | **–** | **(8,700)** | **379,384** |

### (d) Analysis of financing

| | Note | 2006-07 | Restated 2005-06 |
|---|---|---|---|
| | | £000 | £000 |
| From the Consolidated Fund (Supply) – current year | 30 | 62,903,661 | 62,690,646 |
| From the Consolidated Fund (Supply) – prior year | 30 | 106,605 | – |
| From the National Insurance Fund | 30 | 63,016,534 | 60,915,874 |
| Advances from the Contingencies Fund | | – | 750,000 |
| Repayments to the Contingencies Fund | | – | (750,000) |
| **Net financing** | | **126,026,800** | **123,606,520** |

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

| | Note | 2006-07 | Restated 2005-06 |
|---|---|---|---|
| | | £000 | £000 |
| Net cash requirement | | (62,873,709) | (63,349,430) |
| From the Consolidated Fund (Supply) – current year | 30 | 62,903,661 | 62,690,646 |
| From the Consolidated Fund (Supply) – prior year | 30 | 106,605 | – |
| Amounts due to the Consolidated Fund received and not paid | | 33,024 | 123,985 |
| Amounts due to the Consolidated Fund received in prior year and paid over | | (73,716) | (20,188) |
| Amounts due to Consolidated Fund – excess A in A | 27 | 1,931 | – |
| **Increase/(decrease) in cash** | | **97,796** | **(554,987)** |

## 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:

| | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |
| Objective 1 (Children) | 2,189,805 | 2,609,103 |
| Objective 2 (Work) | 31,247,983 | 30,676,722 |
| Objective 3 (Pensions) | 71,870,190 | 68,897,448 |
| Objective 4 (Disabled) | 15,586,442 | 14,749,343 |
| Objective 5 (Payment accuracy) | – | – |
| | **120,894,420** | **116,932,616** |

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 £819 million (2005-06 £684 million) can be allocated to the Department's objectives as follows:

| | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |
| Objective 2 | 819,389 | 684,011 |
| **Total** | **819,389** | **684,011** |

### (c) Capital Employed by Departmental Aim and Objectives at 31 March 2007

| | 2006-07 | Restated 2005-06 |
|---|---|---|
| | £000 | £000 |
| Objective 1 | (26,680) | 68,684 |
| Objective 2 | 95,409 | 295,178 |
| Objective 3 | (449,845) | 14,616 |
| Objective 4 | 167,398 | 422,417 |
| Objective 5 | – | 5,879 |
| | **(213,718)** | **806,774** |

## 34. Capital Commitments

| | 31 March 2007 | 31 March 2006 |
|---|---|---|
| | £000 | £000 |
| Contracted capital commitments at 31 March for which no provision has been made | **9,803** | **62,104** |

## 35. Commitments under Non-PFI Leases

### Operating Leases

| | 31 March 2007 | | Restated 31 March 2006 | |
|---|---|---|---|---|
| | Land & Buildings | Other | Land & Buildings | Other |
| | £000 | £000 | £000 | £000 |
| At 31 March the Department was committed to making the following payments during the next year, analysed according to the period in which the lease expires: | | | | |
| Expiry within 1 year | 171 | 500 | 106 | 788 |
| Expiry after 1 year but not more than 5 years | 2,275 | 2,988 | 1,905 | 2,195 |
| Expiry thereafter | 11,782 | – | 10,597 | – |
| | **14,228** | **3,488** | **12,608** | **2,983** |

### 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 2006-07, 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 June 2007 but negotiations are currently underway to extend this contract further. 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 October 2003 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 32 years and 29 weeks term '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 2007 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**

| | **2007-08** |
|---|---|
| | **£000** |
| Rentals due within 1 year | 4,871 |
| Rentals due after 1 year but within 5 years | 20,690 |
| Rentals due after 5 years but within 10 years | 29,702 |
| Rentals due after 10 years but within 15 years | 34,228 |
| Rentals due after 15 years but within 20 years | 39,044 |
| Rentals due after 20 years but within 25 years | 44,411 |
| Rentals due after 25 years but within 30 years | 25,081 |
| | 198,027 |
| Less interest element | (137,973) |
| | **60,054** |

**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 £536.4 million (2005-06 £609.5 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:

| | 2007-08 | 2006-07 |
|---|---|---|
| | £000 | £000 |
| Expiry within 1 year | 550 | 1,035 |
| Expiry after 1 year but not more than 5 years | 16,018 | – |
| Expiry after 5 years but not more than 10 years | – | 18,470 |
| Expiry after 10 years but not more than 15 years | 626,305 | 541,100 |
| 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 | 11,035 |
| | **650,798** | **571,640** |

## 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 2006-07 was £643.0 million (2005-06 was £383.2 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 2006-07 was £222.0 million (2005-06 was £115.8 million).

### Liberata

The Department has entered a non-cancellable contract with Liberata UK Ltd for payment processing services. The contract is due to expire in September 2008. Total expenditure on this contract in 2006-07 was £3.6 million (2005-06 £3.5 million).

### Parklands

The Department has entered into a non-cancellable contract with Land Securities Trillium for payment relating to repairs and a remedial rebuild at Parklands. This commitment is due to be completed before March 2009. Expenditure in 2006-07 totalled £938,590.

### Future Commitments

At 31 March 2007, the payments to which the Department is committed, analysed by the period during which the contract expires, are as follows:

| | 2007-08 | 2006-07 |
|---|---|---|
| | £000 | £000 |
| Expiry within 1 year | – | 4,000 |
| Expiry after 1 year but not more than 5 years | 453,726 | 958,064 |
| | **453,726** | **962,064** |

## 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 2007 the Department's gross financial liabilities totalled £1,372.0 million (31 March 2006 – £649.0 million), all of which related to non-interest bearing financial liabilities. The weighted-average period to maturity was 15.1 years (31 March 2006 – 9.6 years).

### Financial Assets

As at 31 March 2007 gross financial assets totalled £1,448.8 million (31 March 2006 – £1,087.1 million) of which £1,237.1 million (31 March 2006 £973.1 million) relates to non-interest bearing financial assets. The weighted-average period to maturity was 6.4 years (31 March 2006 – 6.4 years).

£0.1 million (31 March 2006 – £0.2 million) related to fixed-rated financial assets. The weighted-average period for which the rate is fixed was 2.3 years (31 March 2006 – 2.2 years), and the weighted-average interest rate was 15.4% (31 March 2006 – 8.4%).

### Fair Values

The book values of the Department's financial assets and liabilities at 31 March 2007 are not materially different from their fair values. They have accordingly not been shown separately.

## 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 2006-07 £1.614 million (2005-06 £1.247 million) was charged. At 31 March 2007 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.

### 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. But 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

The Department has a potential liability in respect of ineligible claims for ESF programmes that operated during 1994-99 and 2000-06. The Department anticipates it will be able to claim from the European Commission expenditure of £19 million already paid to ESF projects, and this amount has been provided for in these accounts.

An additional 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. This means a provision cannot be justified at this stage.

### Financial Assistance Scheme

In March 2007, the Budget announced an extension to the Financial Assistance Scheme. The provision will not be amended until legislation is in place (expected to be in November 2007). This will increase the FAS provision by £1.368 billion and additional budgetary cover will be required.

### Employment Tribunals

HSE is currently defending two equal-pay cases. In October 2003, HSE successfully appealed at an Employment Appeal Tribunal against an Employment Tribunal decision handed down in July 2002. That appeal was subjected 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 this rehearing.

HSE is defending a claim for compensation brought by a small number of staff which alleges that HSE is in breach of contract and that those breaches are ongoing. The basis of their claim is that in 2004 HSE imposed a new pay system without their agreement, which financially disadvantaged them. HSE is defending the case which is due to be heard at an Employment Tribunal in June 2007.

**Health and Safety Laboratories**

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 matter remains the subject of both a police investigation and a HSE investigation, the confidential nature of which means that HSL is still awaiting further information to enable it to assess its position with regard to any potential liability.

**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 September 2004 and September 2005, The Pension Service contacted 414,427 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 March 2006, State Pension arrears of £76.2 million had been paid out in relation to the pensioner exercise, plus interest of £3.0 million. The administrative cost of the project to this date has been £31.3 million.

The estimated further cost of State Pension arrears to be paid during the remainder of the exercise is £8.5 million plus interest of £0.6 million, with a further administrative cost estimated at around £1.9 million, contingent upon contact from customers.

**The Rent Service**

There are a number of legal claims against The Rent Service, the outcome of which cannot at present be stated with certainty. None of these claims have been settled. A cost of £90,000 has been estimated based on previous experience of similar claims. A cost of £60,000 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

Jobcentre Plus are 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.

## 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 2006 | Increase in year | Liabilities crystallised in year | Obligation expired in year | 31 March 2007 | Amount reported to Parliament by Departmental Minute |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Intention to Proceed | 17 | – | – | – | 17 | – |
| Letters of Comfort | 4,533 | 85,382 | – | (72,692) | 17,223 | – |
| Other | 5,000 | – | – | – | 5,000 | – |
| | **9,550** | **85,382** | **–** | **(72,692)** | **22,240** | **–** |

### Explanation of movements

The items comprising these figures are reported as Contingent Liabilities for internal reporting purposes only and refer to instances where commercial cover has been provided to a supplier prior to contract signature. Although quantifiable, they have arisen within the normal course of business; the single exception to this is the £5.0 million amount included as Other, which was also reported last year. It refers to an estimate of liability should potential legal proceedings take place with a supplier following a dispute with the former Employment Services Department. However, the likelihood of this liability actually arising is considered remote and has not been disclosed under FRS 12.

Prior to contract signature, 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* | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |
| Total 268,032 cases, to the value of £113.499 million. | | |
| **Details** | | |
| **General Losses**<br>General losses are cash losses due to irrecoverable overpayments of benefits recorded during the year. In Income Support and Jobseeker's Allowance cases, where the claimant's good faith was not in doubt and where recovery action was not appropriate, the recorded overpayment has been restricted to the net amount overpaid since the beginning of the financial year preceding that in which the overpayment was discovered. These losses are identified by normal working practices or by various measures introduced under the "performance management regime". | 86,728 | 25,766 |
| **Duplicate Christmas Bonus**<br>Current information indicates that overpayments of Christmas Bonus of approximately £154,000 have been made in 2006-07, compared with £167,000 in 2005-06. 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.<br><br>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 on future computer systems should prevent these duplicates, prior to issue of payments. The Customer Information System is expected to assist in eradicating this type of duplicate payment to customers. | 154 | 167 |

| | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |

**Internal Fraud**

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

In 2006-07, a total of 145 investigations were completed that involved a loss to public funds, 51 relating to losses to the department of non-contributory benefits totalling £347,453. Recovery action in respect of losses is taken at a local level, and recoveries are not recorded separately for these cases.

Three of these cases involved losses of more than £20,000.

A member of staff was found to have assisted their wife in making false claims to benefits over a period of several years. The total loss identified was £110,000.

920 cheques were stolen from a DWP office, many of which were subsequently fraudulently cashed. The total loss was £127,683.

| | 2006-07 £000 | 2005-06 £000 |
|---|---|---|
| A member of staff exaggerated their disabilities/mobility problems on a claim to Disability Living Allowance and also assisted their spouse in making a similar exaggerated DLA claim. The total loss identified was £53,667. | 347 | 193 |

**Organised and Serious Fraud**

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

A total loss of £1,946,282 was incurred on cases closed during 2006-07 relating to 61 cases. Many cases involved organised and systematic abuse of the benefit system.

2 operations were closed which, individually, involved amounts of fraud before recoveries of over £250,000.

**Operation Allison** – This concerned an investigation into counterfeit DWP giro cheques that were presented across the United Kingdom from December 2003 to November 2004. On 21 November 2004 seven members of a family were arrested and charged with Conspiracy to Defraud following joint operations with the Metropolitan and Avon and Somerset Police forces. All seven eventually pleaded guilty to varying levels of involvement in the offences. In total £334,801.50 had been netted as result of their crimes. Prison sentences totalling 10 years and 11 months were administered to 4 culprits, 2 years and 8 months suspended sentences to 2 and a 2 year community rehabilitation order to the one remaining.

The two main perpetrators have been subject to further investigation by the Financial Investigation Unit (FIU) and court orders requiring them to repay £292,000 and £72,800 have been made. Failure to make repayment will result in further terms of imprisonment. To date neither have made any repayments and FIU action is continuing in respect of one of the main perpetrators, who may face additional charges relating to Money Laundering.

| | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |
| **Operation Portia** – The fraud concerned stolen DWP giro cheques from the Royal Mail postal system, 716 giro cheques were identified. The majority of these Giro cheques had been altered, typically from £85.00 to £485.00, and paid into third party bank accounts, opened specifically for this purpose. The bank accounts were opened using false names and identity documentation. The stolen giro cheques were paid into these accounts and the monies withdrawn.<br><br>False identities were also discovered that had been used by the suspects. In total £314,453.92 was netted.<br><br>Ten people were arrested for these alleged offences and charged with conspiracy to defraud the DWP. All ten pleaded guilty to conspiracy and have now been sentenced. 4 of the culprits received a total of 11 years six months imprisonment, 4 received a total of 510 hours Community Punishment and 2 received a total of 3 years Community Rehabilitation.<br><br>A confiscation order was also issued for the amount of £40,976.<br><br>Wherever possible we seek to recover losses through either the Departmental systems, the Courts or increasingly using our Financial Investigation Unit to recover monies through the Proceeds of Crime Act. Cases referred to our Financial Investigation Unit for further investigation have resulted in confiscation orders of £4,742,416, compensation orders of £448,815, and voluntary repayments of £1,232,837 being obtained. | 1,946 | 1,938 |
| **Contractor Fraud**<br><br>Investigations into suspected frauds or abuse by contractors are conducted by a dedicated national team within the Department's Risk Assurance Division.<br><br>A total of 56 investigations involving frauds or abuse by contractors and their staff were completed during 2006-07. The total loss involved in these cases was £1,038,175. Of this amount, £856,353 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. Abuses range from not delivering the contracted level or quality of service, to falsification of records in order to inflate or support payment requests. | 182 | 219 |

| | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |
| **Overpayments of Income Support and Job Seekers Allowance Child Premium arising from Child Tax Credit** | | |
| If a customer is receiving Income Support (IS) or Income Based Jobseekers Allowance (JSA(IB)) Child Premium, and then 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. The scans indicated a potential loss of £40.1 million, but this was before any formal calculation had been undertaken. A note was made to the 2005-06 account estimating the loss at £40.1 million. | | |
| All affected cases have now been identified – there were 29,581 cases in all. A statistically valid sample number of these cases (269) have now undergone a more detailed analysis. These were randomly selected from each of Debt Management's debt centres. The exact amount overpaid was calculated in each of the sampled cases and the results extrapolated across all other cases. Following this analysis, DWP now estimate the value of these cases at £21.742 million. | | |
| 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. | 21,742 | – |
| **Condition Management Programme (CMP)** | | |
| The Condition Management Programme is a high profile initiative, which provides Incapacity Benefit customers with assistance to manage their condition, in preparation for work. Funding for the programme is provided by DWP and payments are made to Primary Care Trusts (PCTs) in accordance with Memoranda of Understanding and based on anticipated client numbers. | | |
| During the two years 2004-05 and 2005-06, potential client numbers in one PCT have been overestimated and that PCT has recorded underspends of £1.0 million in 2004-05 and £1.4 million in 2005-06. The PCT acknowledges this but does not have sufficient funds to reimburse the monies to DWP. The Memorandum of Understanding places the risk of estimation with Jobcentre Plus and provides no legal basis for recovery of any underspends. The £2.4 million therefore constitutes a constructive loss to the Department. No other PCTs have been affected. | | |
| The original Memoranda of Understanding have been superseded by individual Funding Arrangements to ensure that this situation cannot re-occur. Improvements are being implemented to the monitoring and reporting processes for expenditure, which is now subject to quarterly reviews in conjunction with the PCTs. It has been agreed that any underspend from 2006-07 will be deducted from payments due to be made in 2007-08. | 2,400 | – |

| | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |
| **Special Payments** | | |
| Total 16,337 cases, to the value of £13.179 million. | | |
| **Details** | | |
| **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. Ministers are aware of the deficiency, which is in primary legislation. An amendment will be considered should a suitable legislative vehicle become available. | | |
| Since 2004-05 the Resource Account has been noted to the effect that unintended expenditure has been incurred since 1996 on REA. In 2006-07, unintended expenditure was again incurred and is estimated to be in the region of £9.5 million representing 4,000 to 5,000 cases. | 9,500 | 9,500 |
| **Industrial Injuries Disablement Benefit – change of rules on diagnosis of pneumoconiosis** | | |
| In 1993 a Social Security Commissioner (CSI/78/93 reported as R(I) 1/96) ruled that the Department had been applying the law incorrectly in claims for Industrial Injuries Disablement Benefit (IIDB) in respect of pneumoconiosis. This meant that some cases had been disallowed when benefit should have been awarded. This decision raised particularly difficult questions of law and medicine that required detailed consideration before the Department was in a position to respond. | | |
| In December 2001 the Department mounted a publicity campaign to identify people who might be affected. Most of the customers that benefit from the Commissioner's decision are found to be entitled to arrears from the date of the decision, 25 August 1994. | | |
| The Department continued to pay arrears throughout 2006-07, either in response to a claim, or where an underpayment was identified on review. There were 33 such awards in the 2006-07 year, generating an additional cost of £41,810 in Industrial Injuries Disablement Benefit. | 42 | 221 |

| | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |

## Other Notes

### Payments to incorrect Post Office Card Accounts

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

In 2003-04, 2004-05 and 2005-06 payments totalling £6.9 million were made to incorrect card accounts. Requests by the Department have resulted in approximately £1.1 million being returned. In this financial year there have been 3,493 cases of incorrect POCA payments valued at £817,515 and to date £170,995 has been recovered.

These payments are classed as official error – the recovery process for which is currently under review by Ministers. Requests for repayment, or write off, will be issued once Ministers have agreed the process for handling.

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

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

As a result of the Reinstatement of Deficiency Notices Project it was noted that there were a number of cases where State Pension was not taken into account correctly in the Pension Credit award resulting in an overpayment. To date the exact amounts in overpayments, and the precise number of cases is unknown but it is expected that the number of cases will be well below an original estimate of up to 10,000 cases. Some of these cases were corrected during the 2006 uprating exercise, or as part of a case review. Work has begun to collate the figures, but due to the immensity of the task, work is still ongoing and a further Ministerial submission is now required. The Pension Service is aware of the priority and is taking the necessary ongoing steps to complete this work over time.

| | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |
| **Retirement Pension entitlement not taken into account for Pension Credit customers** | | |
| The Reinstatement of Deficiency Notices Project identified an estimated 53,000 Pension Credit cases where State Pension entitlement is not correctly included in the Pension Credit award. These are cases where there is entitlement to State Pension but it has not been claimed. There is no resulting overpayment but Pension Credit has been paid instead of State Pension. | | |
| A special exercise has been set up to invite claims for State Pension and to oversee the correction of Pension Credit cases. Records are being maintained to identify what has been paid as Pension Credit, and what should have been paid as State Pension. Enhancements to guidance and to the IT system have been made to enable correct processing. | | |
| **Incapacity Benefit Credit Entitlement Records on NIRS2 and PSCS** | | |
| Individuals in receipt of Incapacity Benefit payments also receive National Insurance credits. The DWP's Pensions Service Computer System (PSCS) which is used to record, assess and pay claims for Incapacity Benefit, provides the National Insurance Recording System (NIRS2) with information on Incapacity Benefit liabilities to allow the relevant credits to be recorded against the individual's National Insurance account. These contribution credits are used to calculate whether a particular tax year is a qualifying year for benefit purposes. In September 2004, it became clear that the information on periods of incapacity on NIRS2 and PSCS did not match in all cases. | | |
| A preliminary exercise in 2005 identified the categories of error which may have arisen related to incorrect payment of contribution based benefit claims and pensions. From November 2005, the link on recording Incapacity Benefit between PSCS and NIRS2 computer systems has worked effectively. | | |
| It is estimated that the potential error will be made up of a combination of over and under payment in 4 benefit categories – State Pension, Bereavement Benefit, Incapacity Benefit, and JSA. Final quantification of any loss will be dependent on further investigation in 2007. | | |
| **Housing and Related Benefits** | | |
| ***Losses Statement*** | | |
| Total value of £37.465 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 32 local authorities, decided to waive recovery of HB/CTB subsidies, estimated at £36,447,628 in respect of 1999-00, 2000-01, 2001-02, 2002-03, 2003-04 and 2004-05 subsidy claims. | 36,448 | 16,893 |

| | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |
| Payments of £2.5 million, in the form of repayable grants, were made during 1992-93 in respect of emergency aid for Maxwell pensioners to help them mitigate short-term pressures. During the period up to March 2002 £1,482,230 was recovered from Maxwell pensioners. As a consequence of the age of the debts Treasury have agreed that the outstanding balance of £1,017,770 should be written-off. | 1,017 | – |
| ***Special Payments*** | | |
| **Independent Living Fund (ILF)** | | |
| During the year, payments were made to disabled customers that might have technically been in breach of the ILF trust deed. The Department and Ministers have agreed that the trustees have acted reasonably and have amended the deed accordingly. | 1,600 | – |
| **Social Fund** | | |
| ***Losses Statement*** | | |
| Total 54,037 cases, to the value of £47.027 million. | | |
| Recoverable loans impracticable to pursue (9,240 cases). | 1,297 | 2,905 |
| Claims for recoverable Funeral expenses payments abandoned due to insufficient estate (31,180 cases). | 32,004 | 32,775 |
| Claims for recoverable Funeral expenses abandoned because they are impossible/unreasonable to pursue (13,247 cases). | 13,597 | 9,096 |
| Losses due to irrecoverable overpayments (non loans) recorded during the year (370 cases). | 129 | 88 |

***Special Payments***

No Special Payments occurred this year.

***Extra Statutory Payments***

No Extra Statutory Payments occurred this year.

| | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |
| **National Insurance Fund** | | |
| ***Losses Statement*** | | |
| Benefit losses total 118,851 cases, to the value of £35.699 million. | 35,699 | 42,709 |

***Organised and Serious Fraud***

Investigations into Organised and Serious Fraud are carried out by FIS (Organised), part of the Fraud Investigation Service.

A total loss of £1,946,282 was incurred on cases closed in 2006-07 relating to 61 cases. These are reported in the Losses Statement on Pages 100 and 101.

These investigations involve frauds using false/hijacked identities to claim benefits and the theft and manipulation of instruments of payment. The persons committing the frauds are criminals usually working in a criminal network rather than ordinary benefit claimants.

Of the cases which were concluded in the 2006-07 year, two were in excess of £250K. The two cases in excess of £250K are detailed briefly below. Owing to the nature of the Fraud involved it is not possible to separate out the elements relating to Vote funds and National Insurance Funds, hence the total has been included in the Losses on Page 101 and as a note only here.

**Operation Allison** – This concerned an investigation into counterfeit DWP cheques that were presented across the United Kingdom from December 2003 to November 2004, resulting in a loss of £334,801.50. There was no specific benefit involved. Seven individuals were charged and found guilty of Conspiracy to Defraud, resulting in prison sentences totalling nearly 11 years being given to four individuals, and suspended sentences totalling nearly 4 years, to the remaining three individuals. To date no repayments have been made, and further investigation by the Financial Investigation Unit (FIU), may result in additional charges relating to Money Laundering.

**Operation Portia** – This fraud concerned stolen DWP cheques from the Royal Mail postal system, 716 cheques were identified. The majority of these had been altered typically from £85 to £485, and then paid into third party bank accounts, opened specifically for this purpose. Losses amounted to £314,453.92. Ten individuals were charged and found guilty of Conspiracy to Defraud, resulting in prison sentences totalling nearly 12 years being given to four individuals, and Community Punishment/Rehabilitation orders totalling over 3 years, to the remaining six individuals.

Wherever possible we seek to recover losses through either the Departmental systems, the Courts or increasingly using our Financial Investigation Unit to recover monies through the Proceeds of Crime Act. Further investigation by the FIU has resulted in confiscation orders of £4,742,416, compensation orders of £448,815, and voluntary repayments of £1,232,837 being obtained.

| | 2006-07 | 2005-06 |
|---|---|---|
| ***Special Payments*** | | |
| Total 3,109 cases, to the value of £1.368 million. | | |
| These are mainly payments to customers who have been wrongly advised on benefit entitlement | 1,368 | 2,087 |

| | 2006-07 £000 | 2005-06 £000 |
|---|---|---|
| **European Social Fund** | | |
| ***Losses Statement*** | | |
| Total value of £11.384 million. | | |
| A provision of £25,281,416 was included in the 2005-06 accounts in respect of the European Social Fund. In the 2006-07 accounts £9,072,785 of the opening provision has been written off, £6,317,311 has been recovered or provisions reversed, and additional provisions of £9,076,208 have been created. As a result £18,967,528 is carried forward as a provision in the 2006-07 balance sheet. Total write offs during 2006-07 were £11,384,145. After taking account of recoveries and over provisions, losses charged against the Operating Cost Statement in 2006-07 are £5,070,257. | 11,384 | – |
| **Administration** | | |
| ***Losses Statement*** | | |
| Total 23,207 cases, to the value of £107.903 million. | | |
| ***Details of cases over £250,000*** | | |
| ***Cash Losses*** | | |
| Non-salary related losses reported by the Department totalled 2,094 cases to the value of £2,308,872. | 2,309 | 1,004 |
| Cash losses of pay, allowances and superannuation reported by the Department totalled 3,919 cases to the value of £611,151. | 611 | 917 |
| Cash losses of overpayments of benefits, grants and subsidies reported by the Department totalled 16,147 cases to the value of £28,742,179. Included in this figure is £23,451,629 relating to European Social Fund exchange rate losses, (2005-06 nil), which are treated as Administration Losses. | 28,742 | 43,034 |
| **Claims Waived or Abandoned** | | |
| Claims Waived or abandoned by the Health and Safety Executive totalled 240 cases to the value of £353,985. | 354 | 193 |
| **Stores Losses** | | |
| Vehicle related losses reported by the Department totalled 719 cases to the value of £458,088. This was made up of 553 cases totalling £325,071 where DWP drivers of official vehicles were at fault and did not involve any third parties, with the remaining 166 cases totalling £133,018 where DWP drivers were at fault and a third party was involved. | 458 | 596 |

| | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |
| **Other Losses** | | |
| **Benefit Processing Replacement Programme (BPRP)** | | |
| The Benefits Processing Replacement Programme (BPRP) and WATCH 2 (Working Age Transformation and Change) were launched in November 2004 with a view to replacing legacy IT systems used to calculate benefit payments. At that time, it was expected that the existing system would become obsolete and there was no confirmed support for the platform on which it was operating beyond 2012. As the development of BPRP progressed, the focus of the Department shifted in response to the Government's welfare reform agenda towards the delivery of the Employment and Support Allowance. At the same time, it became clear that the existing application would continue to be supported until at least 2020. As a consequence of these factors, work on BPRP was suspended in May 2006 and formally closed in August 2006. The action plan put in place to address the control weaknesses has been discussed on two occasions during hearings of the Work and Pensions Select Committee. | | |
| The total expenditure incurred in relation to BPRP over the three years from 2004-05 to 2006-07 was £118.0 million. There are also unavoidable future commitments arising after 31 March 2007 of £17.0 million. Of the total spent and committed (£135.0 million), management estimates that £73.0 million represents "value" to the Department, i.e. the outputs can be recycled within, or confer benefits to, the business. The balance (£62.0 million) represents a constructive loss at the date of publication of these accounts although commercial negotiations are continuing to reduce this amount. | | |
| WATCH 2 has been successful in delivering the new ERM (Employer Relationship Management System) and FRAIMS (Fraud Referral And Intervention Management System). However, as a further consequence of the BPRP suspension, one element of this programme, a new Contact Management Project, was also halted. A total of £9 million that had been capitalized for this project has been written off and represents a constructive loss. | | |
| The total constructive loss of £71.0 million explained above, mainly relates to spend incurred over the last three years. | 71,000 | – |
| **BELMIN** | | |
| The BELMIN Projects were initiated by the Department to consider replacement of the clerical process for referring Jobseekers to the labour market with an IT based system, which would allow bookings and payments for training to be processed online and give greater control over expenditure. The pilot scheme commenced in Dorset in April 2004 and was rolled out across the South West from January 2006. | | |
| In July 2006, it was realised that significant further investment would be required to deploy the system on a national basis and further development was therefore postponed in order to undertake a strategic review and to consider solutions for the whole business process. The review concluded that alternative solutions would be more beneficial and offer better value for money overall. As a result, no further work was undertaken and the programme was terminated. | | |
| The total costs and unavoidable commitments of the programme amounted to £4.4 million. Management estimates that £2.7 million represents "value" to the Department, i.e. the outputs can be recycled within, or confer benefits to, the business. The balance (£1.7 million) represents a constructive loss. | 1,700 | – |

| | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |
| **Special Payments** | | |
| Total 40,172 cases, to the value of £13.898 million. | | |
| **Details of cases over £250,000** | | |
| Special Payments to staff and members of the public made by the Department totalled 2,596 cases to the value of £2,400,039. | 2,400 | 1,786 |
| Special Payments to members of the public (Customer cases) made by the Department totalled 37,576 cases to the value of £11,498,310. | 11,498 | 15,163 |
| **Included in the above are:** | | |
| 3,511 ex-gratia payments totalling £1,085,644 authorised to customers over State Pension age with severe disabilities whose potential savings credit element in Pension Credit was adversely affected if they remained on Severe Disablement Allowance. | 1,086 | 5,406 |
| Following a DWP wide Reinstatement of Deficiency Notices Project Exercise, special payments were authorised totalling £1,723,247. This related to customers who reached State Pension age between 6 April 1998 and 24 October 2004, and were not receiving full pension in their own right, or not receiving pension, and who had a deficient National Insurance contribution record in any of the years between 1996-97 and 2001-02. | 1,723 | 2,331 |

## 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 Disability Rights Commission, the Health and Safety Commission and Executive, Remploy Ltd, the Independent Review Service for the Social Fund, the Office of the Pensions Ombudsman 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:

| | 2006-07 | 2005-06 |
|---|---|---|
| | £000 | £000 |
| Receipts | 621,979 | 608,931 |
| Bank Interest | 812 | 1,036 |
| Total receipts | 622,791 | 609,967 |
| Less payments to: | | |
| Persons with care | 521,207 | 502,332 |
| Secretary of State | 93,391 | 109,283 |
| Non-resident parents/employers | 7,266 | 7,994 |
| The Agency (CSA fees and court orders) | 2 | 2 |
| Total payments | 621,866 | 619,611 |
| Net (payments) / receipts | 925 | (9,644) |
| Balance as at 1 April | 14,155 | 23,799 |
| **Balance as at 31 March** | **15,080** | **14,155** |

**Statement of Balances at 31 March**

| | 31 March 2007 | 31 March 2006 |
|---|---|---|
| | £000 | £000 |
| Funds awaiting clearance | 8,179 | 7,739 |
| Cleared funds awaiting distribution | 6,901 | 6,416 |
| Balance in bank account | **15,080** | **14,155** |

## 44. Incorrect Payments

The Department aims to pay the right money to the right person at the right time. However, the complexity of the benefit systems and inherent risk associated with the award and payment of benefits result in incorrect payments being made in a proportion of the awards we make. The Department has implemented processes to estimate the level of incorrect payments arising from the following three causes :

- Official Error
- Customer Error
- Customer Fraud

The Department's strategy for estimating the level of incorrect payments takes into account the value of the benefit, its risk profile and previous experience. 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[1]. In summary the approach can be broadly split into three categories:

1. Estimated through continuous sampling exercises (Income Support (IS); Jobseekers Allowance (JSA); Pension Credit (PC); Housing Benefit (HB))

2. Estimated through one-off snapshot sampling exercises (e.g. Disability Living Allowance (DLA)) and support by annual review of official error (e.g. State Pension (SP), Incapacity Benefit (IB))

3. Other, smaller benefits are not directly reviewed. Estimates for these benefits use the results of measurement of similar benefits as a proxy. For example, Council Tax Benefit is not reviewed, but has regulations and administration that are very similar to those of Housing Benefit.

Although both fraud and error give rise to incorrect payments, the Department recognises that fraud (a deliberate abuse of the benefits system) and error (the result of mistakes made by the customer or an official) are fundamentally different and has developed discrete strategies to address them.

In October 2005 we published "Reducing fraud in the benefits system: achievements and ambitions" which described initiatives being taken to reduce fraud. In January 2006, we established an Official Error Task Force whose remit was to deliver reductions in official error in IS/JSA/PC/DLA in the short term. Following a successful first year, during which the monetary value of official error targeted by the Task Force reduced by up to one third, the Task Force was extended to continue throughout 2007. In parallel, we developed DWP's first comprehensive error reduction strategy covering both customer and official error which subsequently we published in January 2007. This strategy which focuses on prevention, correction and compliance aims to deliver £1bn in expenditure savings by 2012.

### Overpayments

Taking the three elements of incorrect payments together, in aggregate the Department estimates that incorrect overpayments of £2.5bn or approximately 2.1% of total benefit payments were made in 2006-07, of which £0.7bn (0.6%) is fraud, £1.0bn (0.8%) is customer error and £0.8bn (0.7%) is official error. These estimates have 95% confidence intervals of roughly +/- £0.3bn.

This is a reduction from the corresponding estimates published in the 2005-06 Resource Account, which were £2.7bn and 2.3% of total benefit payments for that year.

[1]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

## Official Error

Official Error occurs when benefit awards are miscalculated as a result of an official not applying the benefit specific rules correctly or not taking into account all the circumstances applicable to an individual. In 2006-07 the estimate of official error is detailed below :

| | Expenditure 2006-07 | Official Error 2006-07 | | Period of Exercise | Official Error 2005-06 | |
|---|---|---|---|---|---|---|
| **Regularly reviewed** | | | | | | |
| Income Support | £8.9bn | £120m | 1.3% | Apr 05 – Mar 06 | £170m | 1.90% |
| Jobseeker's Allowance | £2.5bn | £40m | 1.7% | Apr 05 – Mar 06 | £50m | 2.30% |
| Pension Credit | £6.9bn | £140m | 2.0% | Apr 05 – Mar 06 | £140m | 2.10% |
| Housing Benefit | £14.9bn | £200m | 1.3% | Apr 05 – Mar 06 | £160m | 1.10% |
| **Periodically reviewed** | | | | | | |
| Disability Living Allowance | £9.1bn | £70m | 0.7% | Apr 04 – Mar 05 | £60m | 0.70% |
| State Pension | £53.8bn | £30m | 0.1% | Apr 05 – Mar 06 | £30m | 0.00% |
| Carer's Allowance | £1.2bn | £10m | 0.6% | Apr 96 – Mar 97 | £10m | 0.60% |
| Incapacity Benefit | £6.6bn | £90m | 1.3% | Apr 05 – Mar 06 | £100m | 1.50% |
| Interdependencies | | £20m | | Apr 06 – Mar 07 | £10m | |
| **Unreviewed** | | | | | | |
| Unreviewed (ex CTB) | £11.7bn | £80m | 0.7% | | £110m | 0.90% |
| Council Tax Benefit | £4.1bn | £50m | 1.3% | Apr 05 – Mar 06 | £40m | 1.10% |
| **Total** | £119.6bn | **£0.8bn** | 0.7% | | **£0.9bn** | 0.80% |

Total figures may not cross-cast due to roundings on individual figures.

Across the benefits which are administered by the Department and where there is annual measurement, the overall trend in official error has been downward. Whilst the Department has responsibility for the administrative rules for Housing and Council Tax Benefits (CTB) which has shown an increase in estimated error, Local Authorities administer the claims. The Department is committed to work with Local Authorities to reduce errors in the course of making awards.

### Customer Error

Customer error occurs when the information provided to the Department is incorrect, incomplete or untimely and as a result the award is inaccurate. The Department has strategies in place to explain the rules more clearly in its literature and encourages staff to explain clearly the information that is required as part of a Department wide approach to foster a climate of open and honest communication with customers.

| | Expenditure 2006-07 | Customer Error 2006-07 | | Period of Exercise | Customer Error 2005-06 | |
|---|---|---|---|---|---|---|
| **Regularly reviewed** | | | | | | |
| Income Support | £8.9bn | £120m | 1.4% | Apr 05 – Mar 06 | £100m | 1.1% |
| Jobseeker's Allowance | £2.5bn | £20m | 0.7% | Apr 05 – Mar 06 | £30m | 1.5% |
| Pension Credit | £6.9bn | £80m | 1.2% | Apr 05 – Mar 06 | £90m | 1.5% |
| Housing Benefit | £14.9bn | £470m | 3.1% | Apr 05 – Mar 06 | £430m | 3.1% |
| **Periodically reviewed** | | | | | | |
| Disability Living Allowance | £9.1bn | £60m | 0.6% | Apr 04 – Mar 05 | £50m | 0.6% |
| State Pension | £53.8bn | £40m | 0.1% | Apr 05 – Mar 06 | £40m | 0.1% |
| Carer's Allowance | £1.2bn | £10m | 1.0% | Apr 96 – Mar 97 | £10m | 1.0% |
| Incapacity Benefit | £6.6bn | £20m | 0.2% | Apr 00 – Mar 01 | £20m | 0.2% |
| Interdependencies | | £10m | | Apr 06 – Mar 07 | £10m | |
| **Unreviewed** | | | | | | |
| Unreviewed (ex CTB) | £11.7bn | £60m | 0.5% | Apr 05 – Mar 06 | £110m | 0.9% |
| Council Tax Benefit | £4.1bn | £120m | 2.9% | | £120m | 3.1% |
| **Total** | £119.6bn | **£1.0bn** | 0.8% | | **£1.0bn** | 0.9% |

In addition to the customer error recognised in the table above the 2004-05 National Benefit Review of the Disability Living Allowance (DLA) identified £0.7billion (+/-£0.2billion) paid to customers where gradual changes in customer's conditions and needs might result in a reduction of entitlement to the benefit. These cases do not result in a recoverable overpayment as we cannot quantify or define when the customer's change occurred. Because legislation requires the Secretary of State to prove that entitlement to DLA is incorrect, rather than requiring the customer to inform us that their needs have changed, cases in this subcategory are legally correct. The Disability and Carer's Service Agency, which is responsible for administering DLA, has initiated a project to identify such cases and thereby ensure ongoing and future entitlements are at the right amount.

### Customer Fraud

As outlined above the Department makes extensive efforts to minimise the level of fraud, employing fraud investigation officers, and utilising advertising campaigns to discourage fraudulent claims. The estimated level of fraud is based upon the 2005-06 measurement exercise and indicates a continued reduction in the level of fraud as reported in the 2006-07 Resource Account.

| | Expenditure 2006-07 | Fraud 2006-07 | | Period of Exercise | Fraud 2005-06 | |
|---|---|---|---|---|---|---|
| **Regularly reviewed** | | | | | | |
| Income Support | £8.9bn | £190m | 2.1% | Apr 05 – Mar 06 | £210m | 2.3% |
| Jobseeker's Allowance | £2.5bn | £50m | 1.9% | Apr 05 – Mar 06 | £50m | 2.2% |
| Pension Credit | £6.9bn | £60m | 0.9% | Apr 05 – Mar 06 | £70m | 1.0% |
| Housing Benefit | £14.9bn | £150m | 1.0% | Apr 05 – Mar 06 | £170m | 1.2% |
| **Periodically reviewed** | | | | | | |
| Disability Living Allowance | £9.1bn | £50m | 0.5% | Apr 04 – Mar 05 | £40m | 0.5% |
| State Pension | £53.8bn | £0m | 0.0% | Apr 05 – Mar 06 | £0m | 0.0% |
| Carer's Allowance | £1.2bn | £50m | 3.9% | Apr 96 – Mar 97 | £40m | 3.9% |
| Incapacity Benefit | £6.6bn | £10m | 0.1% | Apr 00 – Mar 01 | £10m | 0.1% |
| Instrument of Payment fraud | | £10m | | Apr 06 – Mar 07 | £20m | |
| Interdependencies | | £10m | | | £10m | |
| **Unreviewed** | | | | | | |
| Unreviewed (ex CTB) | £11.7bn | £70m | 0.6% | Apr 05 – Mar 06 | £110m | 0.9% |
| Council Tax Benefit | £4.1bn | £40m | 1.0% | | £50m | 1.2% |
| **Total** | £119.6bn | **£0.7bn** | 0.6% | | **£0.8bn** | 0.7% |

**Debt Recovery Policy**

It is the Department's policy to seek recovery of all overpayments, where it is reasonable and cost effective to do so.

- Recovery of fraudulent overpayments are pursued when someone admits fraud in an interview under caution or if they are found guilty of fraud by a court. We give top priority to calculating and recovering fraudulent overpayments.
- Customer error overpayments are recoverable under social security legislation. However the rate of recovery is limited to a maximum of £9 per week when this is being deducted from a means tested benefit to ensure the customer does not suffer hardship.
- We seek to recover official error overpayments where it is reasonable to do so using our common law right of restitution rather than Social Security legislation.

**Errors resulting in Underpayments**

The Department also produces estimates of the level of underpayment arising from official and customer error and details for 2006-07 are stated below:

| | Expenditure 2006-07 | Customer Error | | Official Error | | Period of Exercise |
|---|---|---|---|---|---|---|
| **Regularly reviewed** | | | | | | |
| Income Support | £8.9bn | £50m | 0.5% | £70m | 0.8% | Apr 05 – Mar 06 |
| Jobseeker's Allowance | £2.5bn | £0m | 0.1% | £10m | 0.4% | Apr 05 – Mar 06 |
| Pension Credit | £6.9bn | £20m | 0.3% | £90m | 1.3% | Apr 05 – Mar 06 |
| Housing Benefit | £14.9bn | £100m | 0.7% | £100m | 0.7% | Apr 05 – Mar 06 |
| **Periodically reviewed** | | | | | | |
| Disability Living Allowance | £9.1bn | £220m | 2.4% | £10m | 0.1% | Apr 04 – Mar 05 |
| State Pension | £53.8bn | £0m | 0.0% | £60m | 0.1% | Apr 05 – Mar 06 |
| Carer's Allowance | £1.2bn | £0m | 0.1% | £0m | 0.0% | Apr 96 – Mar 97 |
| Incapacity Benefit | £6.6bn | £10m | 0.2% | £30m | 0.4% | Apr 00 – Mar 01 |
| **Unreviewed** | | | | | | |
| Unreviewed (ex CTB) | £11.7bn | £130m | 1.1% | £30m | 0.3% | Apr 05 – Mar 06 |
| Council Tax Benefit | £4.1bn | £30m | 0.6% | £30m | 0.6% | |
| **Total** | £119.6bn | **£0.6bn** | 0.5% | **£0.4bn** | 0.4% | |

The Department's policy is to make good cases of underpayment where and when these are identified.

### 45. Entities within the Departmental boundary

The entities within the boundary during 2006-07 were as follows:

| | |
|---|---|
| Supply – financed: | The Pension Service<br>Jobcentre Plus<br>Child Support Agency<br>The Rent Service<br>Disability and Carers Service<br>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 2006.

| Balance Sheet | Published accounts at 31 March 2006 | Functions transferred to DCA | Functions transferred to ORR | Analytical / Accruals Adjustments | Restated at 31 March 2006 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Fixed Assets** | | | | | |
| Tangible fixed assets | 967,186 | (3,395) | (42) | (78) | 963,671 |
| Intangible assets | 39,733 | – | – | – | 39,733 |
| Investments | 1,123 | – | – | – | 1,123 |
| Debtors falling due after more than one year | 1,194,668 | (28) | (4) | – | 1,194,636 |
| **Current assets** | | | | | |
| Stocks and Work in progress | 1,249 | – | – | – | 1,249 |
| Debtors | 2,662,757 | (33) | (1,864) | 26 | 2,660,886 |
| Cash with paying agents | 536 | – | – | – | 536 |
| Cash at bank and in hand | 113,931 | – | – | 157,606 | 271,537 |
| Creditors falling due within one year | (3,423,942) | 3,187 | 581 | (158,711) | (3,578,885) |
| Creditors falling due after more than one year | (349,030) | – | – | – | (349,030) |
| Pension Liability | (8,894) | – | – | (1,052) | (9,946) |
| Provisions for liabilities and charges | (389,914) | 126 | – | 1,052 | (388,736) |
| **Net Assets** | **809,403** | **(143)** | **(1,329)** | **(1,157)** | **806,774** |
| **Taxpayers' Equity** | | | | | |
| General Fund | 799,200 | (143) | (1,329) | (1,158) | 796,570 |
| Revaluation Reserve | 10,183 | – | – | 1 | 10,184 |
| Government Grant Reserve | 20 | – | – | – | 20 |
| | **809,403** | **(143)** | **(1,329)** | **(1,157)** | **806,774** |
| **Operating Cost Statement** | | | | | |
| **Administration costs** | | | | | |
| Staff costs | 3,219,028 | (27,796) | (9,159) | 758 | 3,182,831 |
| Other administration costs | 3,150,331 | (40,480) | (3,889) | 1,062 | 3,107,024 |
| **Gross Administration costs** | **6,369,359** | **(68,276)** | **(13,048)** | **1,820** | **6,289,855** |
| Operating income | (194,828) | 127 | 5,863 | 40,268 | (148,570) |
| **Net Administration costs** | **6,174,531** | **(68,149)** | **(7,185)** | **42,088** | **6,141,285** |
| **Programme costs** | | | | | |
| Expenditure | 117,803,525 | – | (13) | 12 | 117,803,524 |
| Income | (829,768) | – | – | (41,140) | (870,908) |
| **Net Programme costs** | **116,973,757** | **–** | **(13)** | **(41,128)** | **116,932,616** |
| **Net Operating cost** | **123,148,288** | **(68,149)** | **(7,198)** | **960** | **123,073,901** |

Reported figures at 31 March 2006 have been restated as a result of the following:

- The Appeals Service transferred to the Department for Constitutional Affairs with effect from 1 April 2006;
- Responsibility for rail safety functions transferred to the Office of Rail Regulation on 1 April 2006;
- The Health and Safety Executive accounted for certain expenditure items (travel and subsistence, staff substitutes, staff development and training and legal costs) on an accruals basis for the first time in 2006-07; and
- An analytical review of account codes was undertaken during 2006-07 leading to a number of disclosure adjustments.

## 47. Post Balance Sheet Events

As part of the DWP wider Estate Strategy for its 1600 building portfolio, the Department has approved a Programme to rationalise its Head Office outside central London from 25 buildings to 11. The Programme responds to the reducing DWP headcount and aligns with the report by Sir Michael Lyons "Towards better management of Public Sector assets" as well as the challenges set by SR04 and CSR07. The Programme commenced in September 2006 and will look to maximise the flexible use of space, in line with the "Working Without Walls" report by Office of Government Commerce, as teams are re-brigaded into retained sites. The first buildings were disposed of in April 2007 and the Programme is due to complete in 2009-10.

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 24 July 2007.

## 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.

**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% (2005-06 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:
www.dwp.gov.uk/contact

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