Department for Work & Pensions

ANNUAL REPORT AND ACCOUNTS 2017-2018

HC 1108

Department for Work and Pensions

Annual Report and Accounts 2017-18

for the year ended 31 March 2018

Accounts presented to the House of Commons pursuant to section 6 (4) of the Government Resources and Accounts Act 2000

Annual Report presented to the House of Commons by Command of Her Majesty

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Contents

Performance report

Secretary of State's foreword

Returning to the Department for Work and Pensions as Secretary of State I can see how the changes we started when I was last in the department are now coming to fruition. Since 2010, we've been reforming welfare, providing personal and flexible support that responds to an individual's changing needs as work and circumstances change.

We are creating a welfare system that helps people to take control of their lives, supporting them to achieve their full potential. Our vision for welfare is one with work at its heart, with tailored, personalised support to help claimants move into and progress in work, balanced with clear expectations of each claimant.

Universal Credit is opening up work and opportunity and we are seeing the positive impact this has. It is helping working-age claimants to make the most of the labour market. We are making work pay and claimants are getting the chance to improve their lives. Our focus on getting claimants into work is delivering results: this year we continued to see record employment levels and the lowest unemployment rate since 1975. Youth unemployment is down at 9.9% from its peak at 20% in 2011.

The *Improving Lives* command paper set out our commitment to see 1 million more disabled people in work in the next ten years, linking across health, employers and welfare, building on our offer of personalised employment support. The disability employment conversation has changed. 600,000 more disabled people are in work than in 2013 (when comparable records began) – and are part of mainstream work.

More people than ever are saving into a workplace pension, and the new State Pension is providing more certainty for future pensioners. We are changing the balance between what people contribute during their working lives and the support they receive in later life. Auto-enrolment is a 'quiet revolution' that is shifting the retirement prospects of a generation. 9.5 million people had been auto-enrolled in a pension scheme by the end of the 2017-18 financial year.

People are breaking out of cycles of disadvantage. We've enabled separated families to choose to collaborate in effective private arrangements for child maintenance, giving them the flexibility to share responsibility for their children. Our statutory child maintenance service is there to help ensure all parents who are able to contribute towards the support of their children. 445,800 children are benefitting from a collect and pay or Direct Pay arrangement under the 2012 Child Maintenance Service.

We're delivering one of Europe's biggest digital transformations, using cutting-edge design, data and innovative technologies to create faster, simpler, user-centred services designed to serve the person using them. We've won five industry awards this year for our digital services—for the scale and pace of transformation, for individual projects, and for women as digital role models. Together with other government departments, we're leading the way across G20 countries in digital transformation of public services.

I look forward to the year ahead, taking forward our ambitious welfare agenda and helping to transform the lives of many people across the country.

The Right Honourable Esther McVey MP
Secretary of State for Work and Pensions

Permanent Secretary's overview

It is an amazing privilege to have been appointed as Permanent Secretary here at the Department for Work and Pensions. I am excited to be leading this department and everything it does for some 20 million people that we serve.

Over the last year we have:

- increased the pace of Universal Credit (UC) rollout. By April 2018, UC was available in 254 jobcentres around the country, with 872,723 people claiming UC
- launched the cross-government initiative 'Improving Lives' in November 2017 to increase the participation of people with a disability or health condition in the labour market. There are now almost 600,000 more disabled people in work than in 2013
- enabled the number of people who are automatically enrolled in a workplace pension scheme to rise to 9.5 million, and worked with employers to get people ready for the rise in automatic enrolment savings rates from April 2018
- supported separated families, with more than 445,800 children benefiting from child maintenance arrangements under the current scheme, 80% of whom are in a 'Direct Pay' arrangement where parents pay child maintenance directly to each other

2017-18 was also a significant year in the way we have transformed our department, as we have focused on improving the quality of our services within the resources available:

- we have been working to create a more flexible workforce that is on modern working conditions and is more reflective of the communities we serve. I am particularly proud of our 'I can be me in DWP' campaign designed to increase diversity and inclusion within the department
- we processed 81.7% of new claims within planned timescales and achieved customer satisfaction of 84%
- we replaced the 20 year PRIME PFI contract for our buildings with more cost effective commercial arrangements, which provide more flexibility and reduce costs. We have reduced the size of our estate, and enabled more teams to be based together and more co-location with partner organisations
- we have saved £315.2 million from third-party commercial contracts
- we recovered £1.52 billion of outstanding debt, and have created a new Counter-Fraud and Compliance Directorate to tackle all fraud, error and debt. The net loss due to fraud and error as a percentage of overall benefit expenditure stood at 1.5%
- our core workforce has reduced by 14,500 since March 2012 and our annual running costs have fallen by £3 billion since 2010

This year, the country celebrated 100 years since the first British women got the right to vote. We celebrated the suffrage centenary with a day of events in DWP celebrating gender equality. Women now make up 67% of our department. We have been proud to support women's greater workforce participation through providing benefits and support to help them enter the labour market, or re-enter after time away.

The DWP Gender Pay Gap report was published in December 2017 on gov.uk. We were pleased DWP compared favourably across the wider civil service but recognised more could be done. The report sets out our commitment and action required to tackle our gender pay gap.

Forward look

We can achieve more together as one department, and we have set out four leadership priorities to achieve this: open and engaging leadership at all levels; better teamwork across boundaries, stronger working across departments and with partners; and making DWP an inclusive place where people can be at their best.

For the rest of 2018-19, our focus is on continuing to improve our services, alongside the roll out of UC to every jobcentre and the delivery of our other major change programmes. We will also be supporting the Scottish Government as the Social Security (Scotland) Bill becomes law and is implemented. We are already preparing for the UK's exit from the EU and will be working to ensure that where the department's work will be affected by EU exit, we are ready to respond.

I am proud of the work the department has done over the last year and look forward to the year ahead. We will continue to help people across the UK make a lasting difference to their lives.

Peter Schofield CB
Permanent Secretary

Our 2017-18 performance at a glance

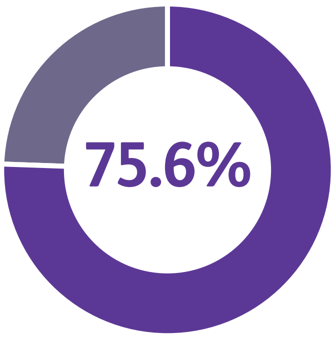
Making a difference

£177 billion
paid out in benefit, pension and Social Fund payments to around
20 million
customers

More than
9.5 million
people automatically enrolled in a workplace pension

Universal Credit full service available in
254 jobcentres
as of 31 March 2018

A record UK employment rate of



Over
445,800
children covered by the 2012 statutory child maintenance scheme

Work and Health programme launched November 2017

Tailored support for long-term unemployed and people with a disability or ill-health

10.5%
of children living in a workless household – down from
16.2% in 2010

Over
111,500
new businesses supported through New Enterprise Allowance

600,000
more disabled people in work than 4 years ago

Transforming our department

Pension savings of eligible savers

£90.3 billion

A record

£1.52 billion

of debt recovered

Staff engagement at

60%

up from

46% in 2010

46% 2010

60% 2017

Customer satisfaction at

84%

Reduced our annual running costs by **£3 billion** since 09-10

£3 billion

since 09-10

Core staffing down by

14,500

since March 2012

Processed

81.7%

of new claims in planned timescales

Renegotiated our estates contracts to save around

£1.7 billion

over the next 10 years

Moved over **100 digital products** to new hosting arrangements – saving around **£60 million every year**

About the Department for Work and Pensions

Performance overview

Who we are

We are the UK's largest public service department. We develop policy and deliver essential services on work, welfare, pensions and child maintenance.

Our vision

An affordable and sustainable welfare system that provides financial security and supports economic growth and improved productivity through the extension of opportunity and promotion of personal responsibility to help people transform their lives.

What we are aiming to achieve

Our ministers set out 5 overarching strategic objectives for the department in 2017-18.

Icon	Overarching strategic objective
	Support economic growth and improved productivity by ensuring work always pays and people are supported to find and progress in work
	Help reduce the disadvantages faced by disabled people and people with health conditions through the welfare system and labour market
	Increase saving for, and security in, later life
	Maximise the number of children benefiting from an effective child maintenance arrangement, encouraging family based arrangements where appropriate, and reduce parental conflict in families
	Transform the way we deliver our services to improve quality and reduce costs

The icons in the table above can be found throughout this document and are there to help guide the reader.

Information about the challenges the department faces in delivering these objectives can be found within the Governance Statement on page 104.

Our key service user groups

Our services are available to people seeking employment, people with a disability or health condition, people planning for or in retirement, and children and families.

Our services

We provide our core services through:

- **Jobcentre Plus** helps people achieve financial independence by providing assistance and guidance into employment. It helps employers to advertise and fill their vacancies. It also administers working-age benefits including Universal Credit, Jobseeker's Allowance and Employment and Support Allowance plus carer and disability benefits which include Personal Independence Payment and Carer's Allowance
- **The Pension Service** helps people save for their retirement. It provides pensions and benefits for pensioners including the new State Pension, Pension Credit and Winter Fuel Payments
- **The Child Maintenance Service** calculates and collects child maintenance payments from parents who cannot make their own financial arrangements. Child Maintenance Options gives information and support to separated parents to help them make informed choices about child maintenance

Some of our services are delivered on our behalf by our partners and providers.

Our structure

We are led by the Secretary of State for Work and Pensions and the Permanent Secretary is our most Senior Civil Servant. At the end of March 2018 we had around 78,000 colleagues working in our departmental group, which includes our core department and our arm's length bodies.

Our budget

The cost of running our department in 2017-18 was £6.5 billion, paid from departmental expenditure limit (DEL). We also paid out £177.2 billion in benefit, pension and Social Fund payments from Annually Managed Expenditure (AME).

Overview of our performance in 2017-18

This section provides a summary of our overall performance against our Single Departmental Plan (SDP) for 2017-18. Our SDP sets out our strategic objectives along with the headline indicators through which we measure our progress against each of our 5 strategic objectives.

Strategic objective 1: Support economic growth and improved productivity by ensuring work always pays and people are supported to find and progress in work

In our Single Departmental Plan we said we would achieve this by:

- developing and implementing an effective Labour Market Strategy
- continuing to roll out Universal Credit (UC)
- ensuring work always pays through effective Working Age benefit design
- maintaining effective employment services, both in Jobcentre Plus and through third-party providers

In 2017-18 we worked intensively to deliver the government's ambition to build a country that works for everyone. At Autumn Budget 2017 our Secretary of State announced an additional £1.5 billion package of support for UC claimants along with a revised rollout schedule for UC. This will allow UC to be introduced safely and securely and in a way that best supports our claimants. As of 31 March 2018 UC was available in 254 jobcentres around the country, supported by our network of service centres, working as a single team focused on supporting UC claimants.

Feedback from claimants and stakeholders has continued to shape our rollout of UC; informing the revised rollout schedule and ensuring claimants had online access to clear information via a new website called 'Understanding Universal Credit' launched in February 2018.

We have worked to ensure that people receive the support they need in order to return to work. In April 2017 we introduced targeted support for 18 to 21 year olds, a programme of intensive support for unemployed 18 to 21 year olds making a new claim to UC. We launched the Work and Health programme in November 2017, for people who have been unemployed for more than 2 years and people who have a disability. We began phase 2 of the New Enterprise Allowance, providing support for eligible claimants seeking to start their own business.

Through our 'See potential' campaign we are encouraging employers to recognise the benefits of recruiting people who face specific barriers to work. In August 2017, we announced a £35 million package of support for 6 new employment pilots, developed with local authorities, to help more than 18,000 disadvantaged claimants to tackle barriers to work.

We continue to encourage and support workless parents to have a chance to earn a living, and introduced new safeguarding measures from April 2017 to ensure work coaches consider childcare responsibilities when setting availability and work search hours.

We have continued to provide effective services through Jobcentre Plus and third-party providers. We introduced service delivery coaches, to provide digital coaching to UC claimants. We have ensured work coaches continue to provide personalised support and work with a wider network, including employer and partnership teams, disability employment advisers and community partners.

2017-18 headline indicators	latest data
UK employment rate	75.6%
Percentage of young people aged 18 to 24 years not in full-time education in employment	76.4%
Percentage of children living in workless households	10.5%

Strategic objective 2: Help reduce the disadvantages faced by disabled people and people with health conditions through the welfare system and labour market

In our Single Departmental Plan, we said we would achieve this by:

- improving employment outcomes for disabled people and people with health conditions
- providing tailored support to people with a disability or health condition to help them prepare for, find and secure work
- working with employers to create employment opportunities and improve the work experience for disabled people and people with health conditions
- administering claims for Personal Independence Payment (PIP) and reassessing Disability Living Allowance (DLA) claims for 16 to 64 year old people for eligibility to PIP

Since April 2017 we have introduced the Enhanced Support Offer to new Employment and Support Allowance and Universal Credit claimants who can or could work. We have also introduced the Small Employer Offer working on a community based model to engage small employers to create jobs for people with health conditions or disabilities.

In November 2017, in response to the Health, Work and Disability green paper consultation, the government published an ambitious plan to see one million more people with a disability or health condition in work over the next 10 years. The plan shows a joined up approach, with goals for health, welfare and employers. It has a strong focus on supporting people with mental health issues and musculoskeletal disorders, the most common conditions affecting ability to work.

We have worked with employers, establishing a Disability Confident Business Leaders Group, for us to drive sign-up to Disability Confident and behaviour change amongst all employers.

We have continued to roll out PIP both for new claimants and for those claimants previously on DLA following reassessment. Between April 2013 and October 2017 we cleared nearly 3 million PIP claims and reassessments.

2017-18 headline indicators	latest data
UK employment rate of disabled people	49.2%
Percentage of disabled people with a low income	19%

Strategic objective 3: Increase saving for, and security in, later life

In our Single Departmental Plan, we said we would achieve this by:

- providing a simplified State Pension system which aids retirement planning
- helping more people save for later life by ensuring they have access to an adequate workplace pension
- protecting and supporting low income pensioners

The new State Pension celebrated its second anniversary on 6 April 2018. We have continued to promote this system and improve its delivery. In February 2018 the ‘Get your State Pension’ digital service replaced the ‘State Pension online’ service. This resulted in increased efficiency for people using the service by simplifying and speeding up the process of claiming a State Pension. It now takes people on average 7 minutes to complete a State Pension claim. 96% of users who tried this service reported they were satisfied or very satisfied and 97% found it easy or very easy to use.

With automatic enrolment, we supported employers to automatically enrol their eligible employees and prepare for the first increase in contributions from April 2018.

We have conducted a review of automatic enrolment to build on the success to date, supported by an external advisory group. We published the report in December setting out a clear ambition for the future of workplace pension saving by extending savings to young people, lower paid people and those with multiple jobs. We are also developing targeted interventions to identify the most effective options to increase pension saving among self-employed people.

We are developing new measures, and monitoring existing ones, to ensure that pension schemes are run in a way that protects the interests of scheme members as the pensions market changes. These include: an authorisation and supervision regime for Master Trust pension schemes (schemes that provide work place pensions to groups of employers that are not connected with each other); controlling and requiring transparency of costs and allowing schemes to consolidate more easily. We continue to work with other government departments, regulators, industry and other agencies to raise awareness of the risks posed by scams and to ensure the perpetrators are pursued wherever possible.

Following a public consultation, on 19 March 2018 we published a white paper “Protecting Defined Benefit Pension Schemes” with proposals to provide more protection for members of defined benefit pensions schemes and improve the way the system works. The Pension Protection Fund continues to pay compensation payments to people whose former employers are insolvent and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation.

Parliament has recently passed legislation which provides for a new single financial guidance body, which will bring together services currently being delivered by the Money Advice Service, the Pensions Advisory Service and Pension Wise, to provide people with easier access to free and impartial help.

We paid universal pensioner benefits including Winter Fuel Payments and TV licences for pensioners aged 75 and over. We supported low income pensioners through Pension Credit and Cold Weather Payments. We continued to increase the basic State Pension through the 'triple lock' to protect pensioner's incomes.

2017-18 headline indicators	latest data
number of eligible employees in a pension scheme sponsored by their employer	17.7 million
total pensions savings of eligible savers	£90.3 billion
percentage of pensioners with a low income	16%

Strategic objective 4: Maximise the number of children benefitting from an effective child maintenance arrangement, encouraging family-based arrangements where appropriate, and reduce parental conflict in families

In our Single Departmental Plan, we said we would achieve this by:

- providing an effective statutory child maintenance scheme which encourages family-based arrangements
- developing an effective policy framework that supports separated families to make child maintenance arrangements
- reducing parental conflict in families

We announced the new Reducing Parental Conflict programme in April 2017, backed by £32 million funding for the next two financial years. We continue to work with a wide range of stakeholders to support local areas, putting proven interventions into mainstream services for children and families, to reduce parental conflict.

We have extended contracts with voluntary sector suppliers of relationship support services while we continue to develop the Reducing Parental Conflict Programme. In 2017-18, we funded 29,000 face to face relationship support sessions and around 26.5 million online user support sessions.

We have continued to provide support for separated parents through the Child Maintenance Service (CMS), who deliver the statutory child maintenance scheme, replacing the Child Support Agency which is due to have no cases with ongoing liabilities left by the end of 2018. Impartial information and advice about the different kind of child maintenance arrangements is available through Child Maintenance Options. For some parents this will be a family based arrangement, free of state intervention, and others use a statutory arrangement administered by CMS where a family based arrangement is not suitable.

We remain committed to ensuring that parents fulfil their financial responsibilities to their children. In October 2017 we announced new powers which allow deductions to be made from jointly held bank accounts in order to recover child maintenance arrears. The changes will come into effect in late 2018 and are expected to raise around £570,000 in additional child maintenance every year.

2017-18 headline indicators	latest data
percentage of children living with parents in relationship distress in couple families	11%
percentage of separated families with a maintenance agreement	This indicator has been withdrawn. More information is available on page 55

Strategic objective 5: Transform the way we deliver our services to improve quality and reduce costs

In our Single Departmental Plan, we said we would achieve this by:

- providing an outstanding service to our customers and claimants
- reducing fraud and error within the Department for Work and Pensions benefits

We responded to the needs of people using our services, introducing freephone numbers for all benefits and services by December 2017.

Throughout 2017-18 delivering a seamless, high quality service for people who use our services has been a priority. We have expanded our online offer and access through service centres across a number of services including Universal Credit, Jobseeker's Allowance, Carer's Allowance, Retirement Provision and Child Maintenance.

We have continued our commitment to reduce fraud by setting up the Counter Fraud and Compliance Directorate to provide accountability for tackling all fraud and error under the responsibility of a single director. This provides a joined up approach to reduce fraud and error over the next four years.

We have reduced our annual running costs by £3 billion since 2009-10. Savings have been achieved through a number of initiatives including our People and Locations programme, negotiation of better value for money contracts with our providers, and digital transformation.

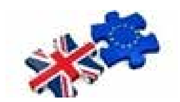
2017-18 headline indicators	**latest data**
net loss due to fraud and error as a percentage of overall benefit expenditure	1.5%
customer and claimant satisfaction with DWP services	84%
new claims processed within planned timescales	81.7%

More information about our departmental expenditure limit and annually managed expenditure, and what we did to transform our services in 2017-18, can be found on pages 56 to 57 of the performance report.

Summary of cross-government commitments and requirements

The Department for Work and Pensions is fully committed to supporting the transfer of devolved benefits and employment support provided for in the Scotland Act 2016 and has a dedicated Scottish Devolution programme to support that aim. The Scottish Government introduced the Social Security (Scotland) Bill in June 2017 in the Scottish Parliament, which is expected to receive Royal Assent in June 2018. We remain committed to supporting the transfer of devolved benefits and employment support to Scottish Government.

We have also continued to support devolution deals with city regions and combined authorities to allow targeted and innovative pilots allowing them to support the hardest to help in their area.



We have stepped up our preparations for when the United Kingdom leaves the European Union, and have been working closely with other departments to identify and assess key areas that are most likely to impact our products and services.

We have continued to work to help the UK government uphold its commitments to the Sustainable Development Goals (SDGs). In 2017-18, our department focused on SDG 1: Ending poverty, and SDG 8: Decent work and economic growth. In 2018-19, we will continue to focus on these goals while also considering the work we can do to support SDG 10: Reducing inequalities.

We take our Public Sector Equality Duty very seriously for both the people who use our services and our employees. We collect information on our service users and employees to ensure we are meeting our obligations under the duty and have been encouraging diversity within the department through a number of ways, including our ‘I Can Be Me in DWP campaign’.

Sustainability has continued to be a priority for the department, from how we make policy to how we manage our estates. As well as reducing the use of paper, increasing recycling and reducing our energy and carbon footprint, we continued to focus on sustainable procurement, reaching out to small and medium sized employers and engaging in initiatives to increase cooperation cross-government. In addition to the sustainable development and greening government information in this report, we plan to publish our 2017-18 sustainability report on gov.co.uk, in late summer 2018.

Performance analysis

This section provides a more detailed narrative of our performance against our Single Departmental Plan 2017-18, including the headline indicators against which we measure performance. It sets out how we've been making a difference to the lives of UK citizens and how we've been transforming our department to live within our spending review settlement and improve the services we offer to people. It also sets out our performance against a number of cross-government commitments.

We are committed to embedding sustainable development and meeting our Public Sector Equality Duty (which covers the 9 protected characteristics of; age, disability, gender reassignment, pregnancy and maternity, race, religion and belief, gender, marriage and civil partnerships and sexual orientation) in everything we do. Our commitment is indicated throughout this section by the following icons:

Sustainable development		
Environment		We aim to make prudent use of natural resources to help protect the environment
Social		We aim to recognise the needs of everyone and support those with complex barriers to turn their lives around for the better
Economic		We aim to achieve high and sustainable levels of employment to support economic growth

Public Sector Equality Duty		
Fair treatment		We aim to eliminate discrimination and treat everyone fairly
Opportunity		We aim to give everyone the opportunity and support they need to fulfil their potential regardless of their circumstances
Good relations		We aim to develop good relations between different types of people through understanding and tackling prejudice

More detail on sustainable development is available on pages 80 to 82 and on the Public Sector Equality Duty on pages 84 to 89 regarding our service users and on pages 138 to 141 regarding our colleagues.

Strategic objective 1: Support economic growth and improved productivity by ensuring work always pays and people are supported to find and progress in work

We are supporting the government's ambition to build a country that works for everyone. Good work supports good health. It keeps people healthy both mentally and physically. It enables people to be economically independent and gives them more choices and opportunities to fulfil their other ambitions in life. Therefore, we are supporting everyone who can or wants to work to do so.

We provide financial support to people of working-age who are seeking employment through a wide range of benefits, and the introduction of Universal Credit (UC) aims to ensure that work always pays. We also support working people on a low income and pay maternity and bereavement benefits.

Benefits administered	Amount paid out in 2017-18 in £s millions[1 2]
Bereavement benefits	499
Cold Weather Payments	50
Discretionary Housing Payments	158
Housing Benefit (not disability, incapacity or carer)	8,138
Income Support (not incapacity)	1,448
Jobseeker's Allowance	1,667
Maternity Allowance	427
Statutory Maternity Pay	2,421
Universal Credit	3,322
Other benefits below £50 million	91
Total	**18,221**

As well as financial support, every working day we provide a range of tailored support to help people into work through our work coaches and our partners. We recognise the opportunity UC offers to support people to progress through work, and we have therefore committed £8 million over the next 4 years to invest significantly, with a suite of research, analysis, tests and trials.

1 Numbers may not sum due to rounding.
2 Benefits breakdowns consist of benefits paid out of Annual Managed Expenditure (AME) and Departmental Expenditure Limits (DEL). The breakdown by claimant group is based on DWP statistical data. More detail can be found in the DWP benefit expenditure tables on www.gov.uk.

What we've been doing

◆Making work pay

Through **Universal Credit** (UC) we are helping people to work and make the most of their potential. UC improves the way in which we help people into work providing support for people who are furthest from the labour market and help for those people who are earning the least to progress. We are making sure it is financially rewarding to increase your earnings from work.

At the Autumn Budget 2017 our Secretary of State announced an additional £1.5 billion package of support for UC claimants along with a revised rollout schedule.

The rollout schedule of UC has been revised to allow for the implementation of the Budget Measures. Rollout was reduced to 10 jobcentres a month between February and April 2018, increased to 41 jobcentres in May and around 60 jobcentres a month from June 2018 onwards. As at 31 March 2018 UC was available in 254 jobcentres across the country. Full roll out across the country is scheduled for completion by December 2018.

We are currently planning the migration of cases that remain on benefits being replaced by UC. This migration is scheduled to be completed by March 2023.

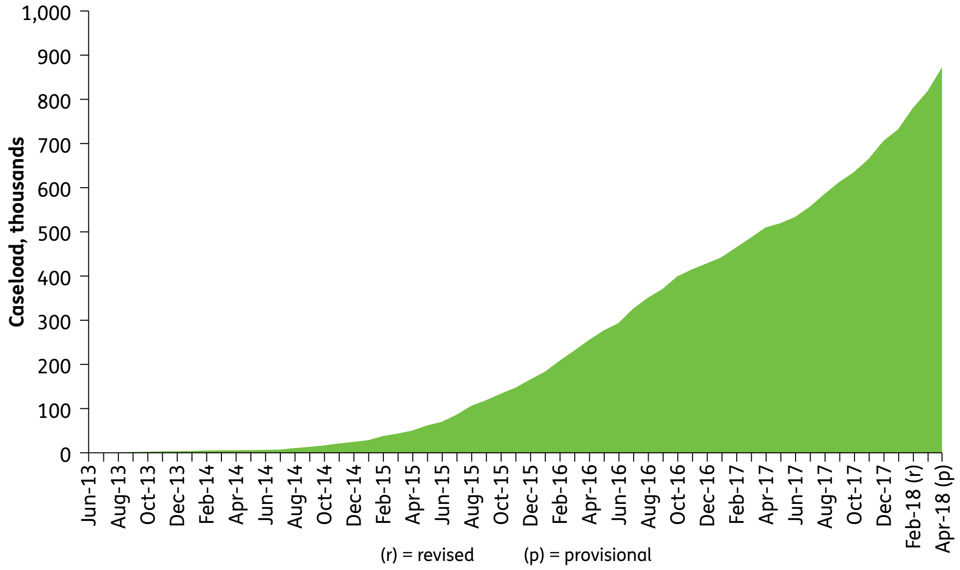
The autumn budget introduced a number of measures and a £1.5 billion package of support, including:

- the removal of the 7 day waiting period at the initial application for UC
- increasing the amount a claimant can receive through an advance payment to 100% from 50% and extending the period over which it can be repaid to one year from 6 months
- delivering an online service to apply for an advance payment
- providing new UC claimants already in receipt of housing costs support with an additional 2 weeks of Housing Benefit (HB) while they transition over
- ensuring that claimants living in the privately rented sector whose HB was previously paid directly to their landlords are automatically offered the same option when they join UC
- as a short-term measure, giving claimants in temporary accommodation housing costs support through HB. This enables local authorities to recover more of their costs and safeguard this valuable facility. We are currently developing a long-term solution for claimants who find themselves in temporary accommodation

In order to put in place this package of measures and to ensure a smooth transition to UC, we stopped accepting new claims to the prototype UC service at the end of December 2017. This does not affect existing UC claims.

In February 2018 we launched a new website called 'Understanding Universal Credit' to help people understand what UC means for them. We created the website in response to requests from claimants and partner organisations for more information about UC. We are committed to using feedback from our claimants to shape the right service.

UC caseload over time



(r) = revised (p) = provisional

Latest statistics published in May 2018, show there were 872,723 people receiving UC in April 2018 and of these 36% were in employment. This compares to 509,969 people in April 2017 of which 37.5% were in employment. Since UC began, there have been 2,096,550 claims made of which 1,529,950 proceeded.

As well as reforming the structure of the benefits that we pay to ensure there is a strong financial incentive, we have maintained the weekly cash limit on the amount of benefit certain individuals may receive.

The key aim of the **benefit cap** is to provide a strong work incentive, and to ensure the welfare state is fair and sustainable, while still providing support to those people most in need.

Evaluation of the previous cap level found capped households were 41% more likely to go into work than similar uncapped households and lone parents affected by the cap were 51% more likely to go into work than similar uncapped lone parents.

To support work incentives, households that are entitled to Working Tax Credit are exempt from the benefit cap. UC claimants earning over the earnings threshold, currently £520 per month up to April 2018 for both single and joint claimants are also exempt. This increases the incentive for people to find jobs or increase the number of hours they work. For example a lone parent can be exempt by working for 16 hours a week. However, working for less than 16 hours can still significantly help households affected by the cap.

The latest statistics were published in May 2018 and show that as at February 2018:

- 180,000 households have had their HB capped at some point since April 2013 and 60,000 households in payment were subject to an HB cap as of February 2018
- 120,000 households (66%) that had been capped were no longer subject to the cap under HB, 48,000 of whom (41%) were exempt due to Working Tax Credits indicating that they had found work
- on average 190 households every week move into work
- at February 2018, there were 4,700 households capped under UC, of whom 2,900 were lone parents (62%) and 1,200 were couples with dependent children (25%)

◆Helping people to find and progress in work

The vast majority of benefit claimants receive out of work benefits for a short duration, maintain close links with the labour market and return quickly to employment. We recognise that many claimants, with relatively light-touch support, are able to take their own effective steps back to work. We also actively encourage claimants to take personal responsibility for their transition back to work by identifying their own barriers, referring themselves to help and accessing online tools.

The Jobcentre Plus offer

Jobcentre Plus is a core part of the support provided by the department for those in receipt of unemployment benefits and Universal Credit (UC). Jobcentres provide personalised employment advice and use their knowledge of the local labour markets to match unemployed claimants to suitable job vacancies. In jobcentres, we aim to provide a welcoming environment where people can use free WiFi on their own devices and have access to 8,000 computers to help develop their digital skills.

The government has given more direct responsibility to Jobcentre Plus work coaches and managers. Helping people to find and progress in work starts through our network of work coaches. There is a greater focus on supporting claimants to overcome barriers, encouraging them to start work and supporting them to progress in work.

Through regular conversations with their claimants, our **work coaches** identify what help they need to find and secure work. Our work coaches can monitor each claimant's journey to employment through the content of their claimant commitment. For those expected to work, this sets out the actions a claimant must undertake to find work and is agreed with their work coach. Claimants are made aware of what could happen if they fail to comply with the requirements in their claimant commitment. It also sets out what could happen if a claimant fails to keep their commitments.

Work coaches can also draw on a menu of back-to-work support, advice from disability employment advisers and community partners, and specialist advice such as occupational health and Jobcentre Plus work psychologists. In addition, Access to Work can provide practical and financial support for people with a disability or long-term physical or mental health condition to start or stay in work.

Some claimants need additional support to move closer to work. By working closely with employers and our partners we seek to provide everyone with the specific help they need to move closer to employment. We do this through a number of initiatives:

The **Work and Health programme**, launched in November 2017, provides tailored support for people with a disability or ill health, specified early access groups and the long-term unemployed. The programme has been available in every area across England and Wales since March 2018.

The **Flexible Support Fund (FSF)** is a discretionary fund used by Jobcentre Plus district managers and work coaches to provide local support to help claimants return to work where there are individual needs which fall outside of our specific menu of support. The FSF may be used for a wide range of activities which must support our strategic objectives and are at the discretion of Jobcentre Plus district managers and work coaches, for instance:

- one-off claimant needs, like the cost of travel to interviews
- replacement adult or child care
- adaptations to help a disabled claimant access a workplace, or
- training allowances

The FSF allows us to focus expenditure on supporting claimants eligible for the Enhanced Support Offer as well as all claimants with a health or disability barrier to work. Part of the FSF budget is prioritised to support these claimants.

New Enterprise Allowance is a scheme for claimants who wish to start-up their own business. Since April 2017 eligible claimants wishing to start their own business have been taking part in New Enterprise Allowance Phase 2. The new phase of the scheme involves a better experience for people on the scheme, including a pre-scheme ‘Link-Up: Start-Up’ workshop that coaches claimants through the realities of running a business. From April 2017 the scheme also began to offer mentoring support from New Enterprise Allowance providers to low-earning UC claimants who already run their own business.

Young people

Jobcentre Plus Support for Schools is aimed at helping pupils make a smooth transition from school to work, training or further study, and thereby avoiding the long-term effects that may result from a drift into unemployment at an early age.

Our aim is to help students understand what awaits them when they leave school, show them some of the opportunities available in their local labour market, and encourage them to make informed decisions about their future. Our offer to schools provides support in 4 broad areas:

- advice and information on routes into traineeships and apprenticeships
- help in sourcing and advising on work experience opportunities
- advice on the local labour market including the ‘soft skills’ that employers value, such as team working and timekeeping, and
- facilitating links between schools and employers

Targeted support for 18 to 24 year olds

Targeted support for 18 to 24 year olds is provided by our work coaches and locally available provision delivered by providers, local authorities, independent and volunteer organisations, and Jobcentre Plus. Young people are encouraged into activities to help them transition into work, including basic skills training, work-related training and work experience.

From April 2017 we introduced a new programme of intensive support for unemployed **18 to 21 year olds** making a new claim to UC – full service. We are rolling out this intensive support programme in line with the roll-out schedule for UC.

The programme starts with a set curriculum of workshops and exercises that encourage 18 to 21 year olds to think more broadly about their skills and job goals, help them identify any training they need, and support them to improve their job search, job application and interview skills.

Young people also receive work-focused coaching and referral to additional tailored support drawn from a wide range of locally available provision. Those who are still unemployed after 5 months on this programme will have an extended assessment to review their learning and progress, and identify any additional barriers to work that need to be addressed quickly. At 6 months, if the individuals remain unemployed, they will be offered a sector-based work academy placement or encouraged to take up a traineeship, both of which combine vocational training with work experience. For every 18 to 21 year old on the programme who does not take up work-related training, we are offering a 3-month work experience placement to help them achieve their job goals.

We provide **additional support for 18 to 24 year olds with a health condition or disability**. Contact with employers, even on short-term work placements, can improve a young person's chances of moving successfully from education to employment. Young people with long-term health conditions, such as autism and learning disabilities, often find it more difficult to secure and complete work placements. We have developed 2 new trials to offer voluntary supported work experience to this group of young people. The trials aim to improve confidence, motivation and understanding of the world of work.

The **Young Persons Supported Work Experience** is currently being delivered in 5 Jobcentre Plus districts and is aimed at 18 to 24 year olds in the Employment and Support Allowance work-related activity group. **Tri-Work** is a similar initiative aimed at students in years 10 to 11 in schools and special schools in 3 local authority areas from March to July 2018.

Both schemes target disabled young people most in need of support and facilitate a full wraparound service for both individuals and employers to ensure that the young person is able to get the most from their placement.

Helping claimants with the biggest barriers to employment

Some claimants may have additional and very specific barriers to finding work. We aim to give every claimant the opportunity to realise their potential, regardless of their background or circumstances. Through our 'See potential' campaign we are encouraging employers to recognise the benefits of recruiting people who face specific barriers to work. In August 2017, we announced a £35 million package of support for 6 new employment pilots, developed with local authorities, to help more than 18,000 disadvantaged claimants to tackle barriers to work. They form part of the devolution deals to boost jobs and growth while handing funding and powers back to the regions.

Lead carers, including lone parents

The proportion of lone parents in work has risen over time to 67.4% in October-December 2017, up from 56.1% in the same period in 2010.

Lead carers, including lone parents, are now more likely to be in work than ever before. We have implemented a number of initiatives to support lone parents to work.

Measures in the Welfare Reform and Work Act 2016 increased conditions for lead carers and lone parents with children below compulsory school age. From April 2017 the following changes were introduced:

- where the youngest child in the claim is aged 2 years, the lead carer will be expected to prepare for work
- where the youngest child in the claim is aged 3 to 4 years, the lead carer will be expected to be available for work and undertake work search for up to 16 hours a week. This increases to 25 hours a week when the child is aged between 5 and 12 years old

Safeguarding caring responsibilities also came into force from April 2017. This means the work coach should consider childcare responsibilities when setting availability and work search hours, including work preparation activities.

Claimants from a black, Asian or minority ethnic background (BAME)

The government published its first Race Disparity Audit in October 2017. It showed that employment levels for BAME groups have grown steadily but there is still a substantial gap between people from these groups and white people when it comes to participation in the labour market. The employment for those from an ethnic minority reached a record high in the four quarter average to March 2018 at 65.1% compared to 76.9% for those from a white background, a gap of 11.8 percentage points and a small improvement from a gap of 12.0 percentage points in 2017.

We have made some progress in helping claimants from BAME groups into work, with nearly half a million more in employment since 2015, but there is still more to do.

We are using the findings of the audit to improve our services and employment prospects of people from BAME backgrounds. We are working with employers to develop recruitment and retention practices that benefit everyone regardless of their background. We are reviewing our policies to ensure they are implemented in a way that works for all ethnic groups and drawing up plans to tailor support to specific areas of the country that take into account the needs of specific communities.

Claimants aged 50 years and over

The number of people aged 50 years and over in employment is at a record high of over 10 million, an increase of 2.2 million over the last 10 years. This increase in older worker employment has been predominately driven by the changes in the female employment rate over time. The largest increase from 1997 to 2017 occurred for females aged 55 to 59 years – up 19.7 percentage points from 50.7% in 1997 to 70.4% in 2017.

The average age of leaving the labour market has increased over the past 2 decades, but is not keeping pace with increases in life expectancy, with over half of men and women not in work in the year before they reach State Pension age.

In February 2017 we published our strategy 'Fuller Working Lives: A Partnership Approach' on www.gov.uk. This employer-led strategy aims to increase the retention, retraining and recruitment of older workers by bringing about change in the perceptions and attitudes of employers.

The government appointed Business in the Community's 'Age at Work' Leadership Team as the Business Champion for Older Workers to spearhead the government's work to support employers to retain, retrain and recruit older workers, by actively promoting the benefits of older workers to employers across England influencing them both strategically and in terms of practical advice.

We have expanded the existing jobcentre network of Older Claimant Champions into all 34 Jobcentre Plus districts to support unemployed people aged 50 years and over to return to work. The champions work together with around 11,000 work coaches and employers to raise the profile of older workers, highlight the benefits of employing older jobseekers and share best practice.

Our Jobcentre Plus work coaches have the flexibility to offer all claimants, including older people, different types of support and help to find work. Current flexibilities used in districts across the country include:

- allowing older claimants to access conversion courses to help convert old qualifications into modern ones that are more relevant to today's employers
- working alongside our National Employers Service Team to develop links with employers and challenge perceptions of older claimants
- providing IT support for older claimants to help them develop new skills to search and apply for jobs online

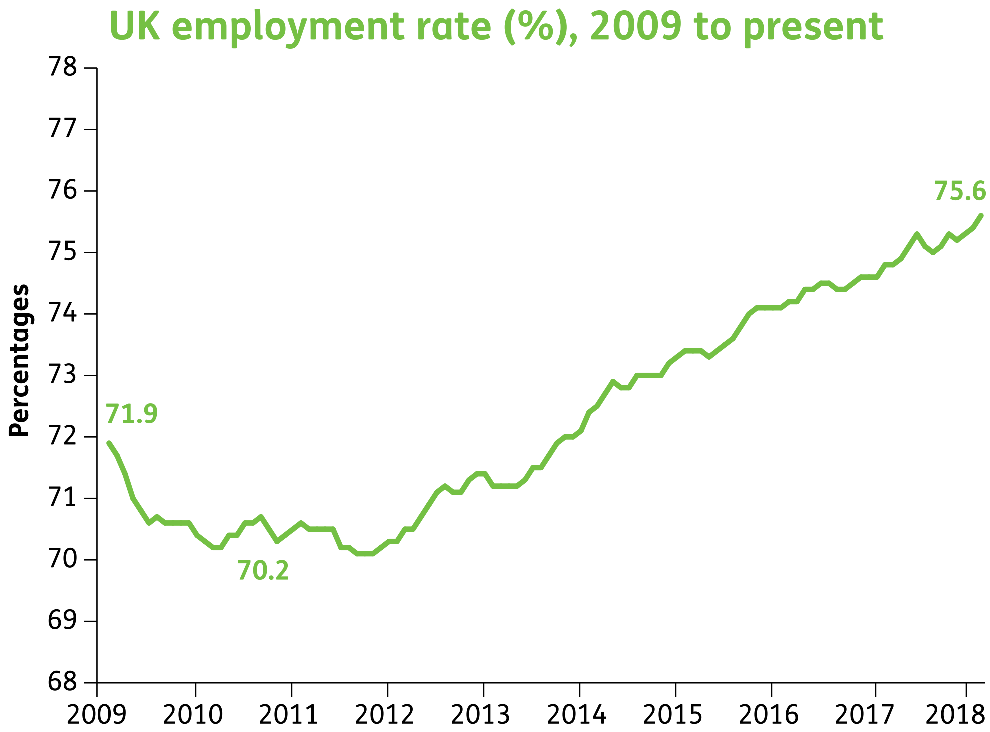
For those claimants who are disabled and people with health conditions, a new Personal Support Package is being introduced which will ensure they receive tailored support to meet their individual needs.

Our performance

We are measuring our progress in this objective through the following headline indicators:

Headline indicator 1: UK employment rate

The overall UK employment rate between January and March 2018 was 75.6%, the highest ever rate in the UK. This is an increase of 0.8 percentage points from 2017 and 5.4 percentage points from 70.2% in 2010 for the same period.



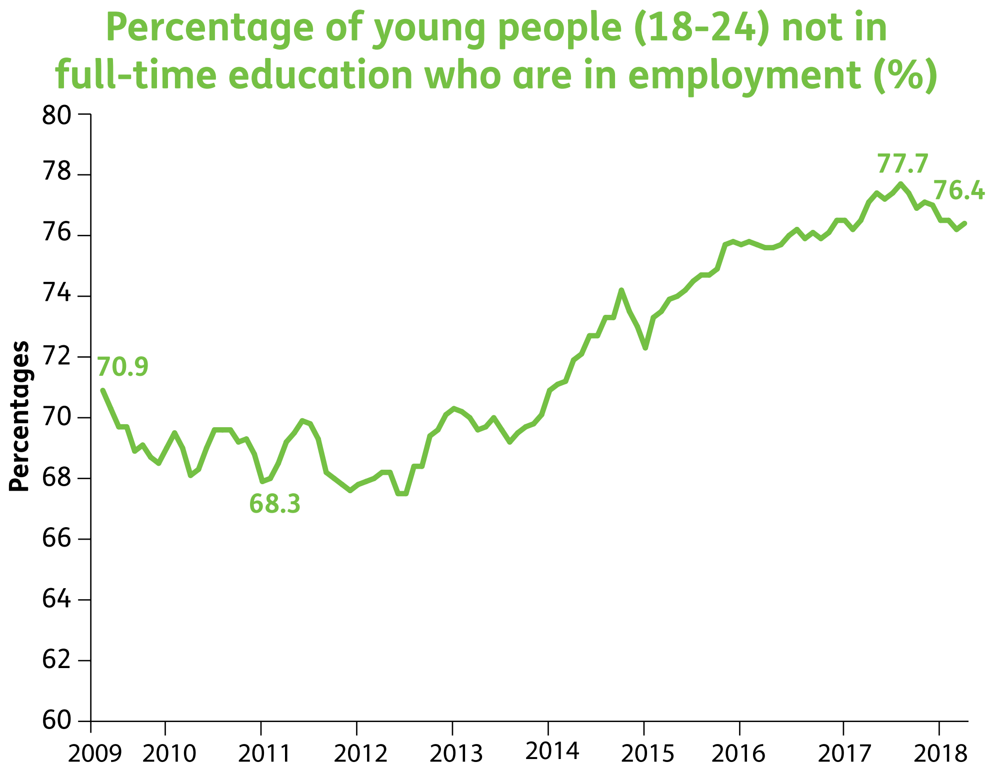
This indicator is measured using data from the Labour Market statistics published by the Office for National Statistics. It is a 3 month rolling average of the 16 to 64 year olds employment rate for the UK and is seasonally adjusted. Therefore comparisons can be made between any non-overlapping quarters. An increase denotes an improvement in this indicator.

Headline indicator 2: percentage of young people aged 18 to 24 years not in full-time education who are in employment

Altogether 76.4% of young people aged 18 to 24 years not in full-time education were in employment between January and March 2018, down 0.8[3] percentage points from 77.1% in 2017 and up 8.1 percentage points from 68.3% in 2010 for the same period.

The unemployment rate amongst young people aged 18 to 24 years who are not in full-time education is 9.9%.

3 Figures do not tally due to rounding



This indicator measures the proportion of young people aged 18 to 24 who are not in full-time education but are in employment. It uses data from the Labour Force Survey published monthly by the Office for National Statistics. Data is seasonally adjusted so quarter-on-quarter comparisons can be made. An increase denotes an improvement in this indicator.

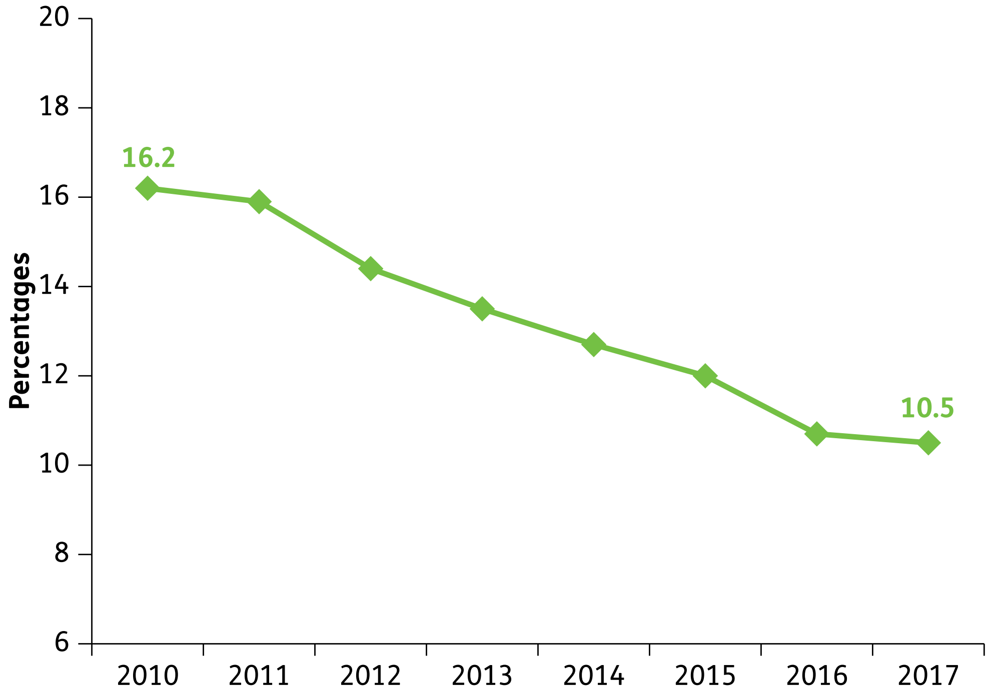
The decrease in the rate over the last year (a fall of 0.8% points) has largely been driven by an increase in the inactivity rate (an increase of 1.0% points), for which there may be varied reasons. These reasons will include movement of individuals from full-time education (for example students finishing university) to not in full-time education – part time students and those on training courses can also be included in this inactive not in the full-time education group. These estimates will also be affected by wider changes in the youth population for example the total 18 to 24 year olds not in full-time education has increased by 19,000 over the period which, all other things equal would act to lower the employment rate. Furthermore, estimates for population sub-groups are subject to increased statistical uncertainty, and therefore small changes in the figures should be treated with caution and may not be indicative of a trend.

Headline indicator 3: percentage of children living in workless households

In October to December 2017 the percentage of children living in workless households was 10.5% - down from 16.2% for the same period in 2010.

Statistics published on 30 May 2018 show 10.2% of children living in workless households for January to March 2018. We are not currently basing our indicator on the January to March series because there are insufficient data points in that series to provide an informative trend.

Percentage of children living in workless households (October - December quarters)



This indicator measures the percentage of children (aged under 16 years) who live in workless households. We define these as households containing at least one person aged 16 to 64 years where none of the members aged 16 years or over are in employment. The statistic, which is based on the Household Labour Force Survey, is published for each quarter. The data is not seasonally adjusted so only year-on-year comparisons are meaningful. The data series for January to March and July to September are relatively new, starting from 2015 and 2014 respectively. To provide a more informative trend, this indicator will continue to report on the April to June and October to December quarters. A reduction denotes an improvement for this indicator.

Strategic objective 2: Help reduce the disadvantages faced by disabled people and people with health conditions through the welfare system and labour market

We are working to deliver the government's ambition to build a country that works for everyone by working to see 1 million more disabled people into work by 2027. A disability or health condition need not dictate the choices that a person has in their life - rather, a person's talent, determination and aspiration to succeed should determine their path.

We've made some progress. There are almost 600,000 more disabled people in work than 4 years ago.

Many disabled people still face barriers to work and people in work who fall ill too often do not return to work. Our welfare and health systems must support people who will never be able to work but we, along with employers, should also offer the opportunity of work for people who can work and help for people who could work.

We are helping all claimants with a disability or health condition through the Personal Support Package which initially requires participation in a work and health conversation to explore every claimant's potential for work. The Enhanced Support Offer continues to support all claimants who can or could work through the provision of tailored support to help them prepare for, find and secure employment.

Working closely with employers is a critical part of our strategy to improve employment outcomes and experiences for disabled people. Our principle mechanism for promoting the benefits of employing disabled people is Disability Confident. Launched in November 2016, this scheme gives employers the tools to recruit, retain and develop disabled employees.

We spend around £50 billion each year on a range of benefits to support people, including children, living with a disability or health condition.

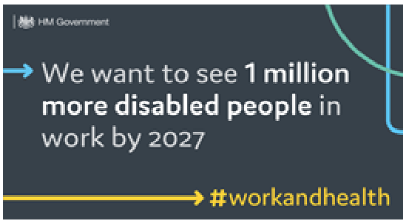
Support for disabled people and people with health conditions	Benefits administered	Amount paid out in 2017-18 in £s millions[4 5]
Children	Disability Living Allowance	1,965
Working age	Armed Forces Independence Payment	8
	Carer's Allowance	2,792
	Disability Living Allowance	3,572
	Incapacity benefits[6]	15,395
	Income support for Carers	671
	Housing Benefit (disability, incapacity and carer)	7,671
	Industrial injuries benefits	327
	Personal Independence Payment	7,226
Pension age	Attendance Allowance	5,529
	Carer's Allowance	38
	Disability Living Allowance	3,843
	Industrial Injuries benefits	603
	Personal Independence Payment	1,412
	Severe Disablement Allowance	106
	Total	**51,158**

What we've been doing

◆Improving employment outcomes for disabled people and people with health conditions

In November 2017, in response to the Health, Work and Disability green paper consultation, the government published a plan to see 1 million more people with a disability or health condition in work over the next 10 years. 'Improving Lives: the future of work, health and disability' sets out how the government will work with employers, the National Health Service (NHS), charities and local authorities to break down barriers to employment.

4 Numbers may not sum due to rounding.
5 Benefits breakdowns consist of benefits paid out of Annual Managed Expenditure (AME) and Departmental Expenditure Limits (DEL). The breakdown by claimant group is based on DWP statistical data. More detail can be found in the DWP benefit expenditure tables on www.gov.uk.
6 Incapacity benefits include Employment and Support Allowance, Incapacity Benefit, Severe Disablement Allowance, Income Support (incapacity) and Universal Credit (incapacity and carer).



For far too long people with a disability or health condition have faced barriers to employment. It is estimated that health conditions that prevent people from working cost the economy around £100 billion each year. We are leading this initiative with the NHS.

So far, we have put 300 new disability employment advisers into our Jobcentre Plus network to spread best practice. We have recruited 200 community partners to build and strengthen links with employers and partners to identify and open up more opportunities for disabled people.

At the heart of the government's plan is the belief that everyone should get the support they need regardless of their disability or health condition. This includes people with complex conditions such as learning disabilities. The plan sets out:

- plans for wide-ranging action by employers, and the welfare and health systems to help get people into work and to stay in work
- actions to join up and improve services across the workplace, the health system and the welfare system
- actions to shape, fund and deliver effective occupational health services that can support everyone in work while:
  - achieving the right balance with, and expectations of, employers to recruit and retain disabled people and people with health conditions
  - creating healthy workplaces where everyone can thrive
- a strong focus on supporting people with mental health issues and musculoskeletal disorders, which are among the most common conditions affecting ability to work

We are spending around £39 million to more than double the number of employment advisers to improve access to psychological therapies services. All 40 recommendations of the recent Stevenson/Farmer 'Review of Mental Health and Employers' are being taken forward, including establishing a framework for large employers to report on mental health and disability within their organisations.

◆Providing tailored support to people with a disability or health condition to help them prepare for, find and secure work

We are continuing to ensure that the support we offer is tailored to the needs of each individual claimant.

Through the **Personal Support Package** we are supporting all claimants claiming Employment and Support Allowance (ESA) and Universal Credit (UC) due to a disability or health condition by:

- requiring the claimant to participate in a Work and Health Conversation which focuses on what they can do, rather than what they cannot do
- providing support from disability trained and accredited work coaches
- signposting to local voluntary services and public sector services to ensure claimants are aware of the range of support available to them

We began implementing the Work and Health Conversation in January 2017 and by November 2017 it was available in every jobcentre.

Since April 2017 the **Enhanced Support Offer** has supported new ESA claimants and UC claimants who can or could work. The Enhanced Support Offer includes:

- a place on the new Work and Health programme or Work Choice for all eligible claimants who wish to volunteer
- access to job clubs and work experience places
- increased funding for the Access to Work Mental Health Support Service
- work coaches working with small employers to identify opportunities and matching people to jobs in a new Small Employer Offer

The **Small Employer Offer** (SEO) went live in June 2017. 102 new Small Employer Advisors have been recruited to work with small employers who employ less than 25 members of staff in the local community. This active engagement aims to create job opportunities for people who have a health condition or disability. The SEO provides jobcentres with a platform to engage with small employers and is part of the wider Department for Work and Pensions employer engagement strategy. The SEO strengthens the links with the local community and actively works to:

- break down preconceived opinions about employing people with a long-term health condition or disability
- identify the benefits of employing someone with a health condition or disability
- highlight the support available to employers if they employ someone with a health condition or disability, and
- increase sign up to the Disability Confident scheme

The SEO is currently only available in half of Jobcentre Plus districts. Following evaluation later in the year, a decision will be made about extending it further.

To build sustainable job outcomes and provide ongoing support for the employer and the new employee, a small payment is available to help with the transition from benefits to employment. The **Small Employer Payment (SEP)** is available for employers after a period of 3 months employment. This small payment enables employers to provide ongoing support, additional mentoring and manage any ongoing needs the employee may have.

Referrals to the **Work Programme** ceased in March 2017. Claimants already on the Work Programme will complete the programme. In November 2017 we launched the new **Work and Health Programme** in north-west England and Wales. The programme expanded to include central England, north-east England, southern England and the Home Counties from January 2018. Both Greater Manchester and London received devolved funding to develop, procure and deliver local versions of the programme. Greater Manchester went live in January and London in March 2018. The power to provide employment support in certain circumstances including providing support to those with a disability to select, obtain and retain employment, was devolved to Scotland through the Scotland Act 2016 (see devolution section on page 78 for more information on powers that have been devolved).

The programme, developed in response to the Health, Work and Disability green paper consultation, provides specialist support to help disabled people and people with health conditions into sustained work. The programme aims to enable every participant to go as far as their talents can take them at work. We are delivering the programme through local partners. Our work coaches work closely with them to understand the support that is available and to ensure that suitable claimants are referred.

Specialist Employability Support is a voluntary programme of support aimed specifically at individuals whose health-related barriers do not allow them to benefit from other employment programmes. It is designed to help people at risk of being left out of the labour market find and stay in employment or self-employment. The programme is individually tailored to offer guidance, learning and training relevant to each participant. The majority of volunteers on this programme have employment support needs and barriers that are likely to take more than 6 months to resolve and are more likely to experience complex employment challenges, so the duration of the programme varies in accordance with their needs. In 2017-18, 1,363 individuals started on this programme.

Work Choice provides tailored support to meet individual needs that cannot be met through other programmes, Access to Work or workplace adjustments. It focuses on helping disabled people to achieve their potential and move towards living more independently. Work Choice also ensures employers get the support they need to employ more disabled people.

Latest statistics published in August 2017[7] show there were 17,510 referrals to Work Choice in the year to June 2017 with 11,670 Work Choice starts in the same period. Over 50% of the people who started Work Choice were on Jobseeker's Allowance or UC. The number of people starting Work Choice who achieved a sustained job outcome within 24 months has been increasing steadily since the programme began. The level has increased from 13% in 2011-12 to 28% for the latest year of people starting the programme.

Work Choice contracts were due to end in April 2017 but have been extended in England and Wales with a current planned delivery period at least until 31 March 2019. However, the Work Choice delivery model changed from 3 modules to 2 modules for new participants from 1 April 2017 to ensure participants get the maximum benefit from Work Choice during the extended period.

The **Fit for Work** assessment service was closed in England and Wales on 31 March 2018 and will close in Scotland on 31 May 2018 due to low referral rates. However, the Fit for Work advice service continues to provide employers, employees, self-employed people and GPs with advice on sickness absence to help with the process of identifying issues and adjustments, and self-help for common obstacles preventing a return to work or to support employment. This service has been well-used to date.

We are exploring a number of different approaches with a view to developing a more robust and sustainable occupational health offer for the future.

Starting from 29 September 2017, we ended health reassessments **for ESA and UC claimants with the most severe lifelong disabilities or health conditions**. Those placed in ESA's Support Group and the UC equivalent have the most severe and lifelong health conditions or disabilities, whose level of function would always mean that they would have limited capability for work and work-related activity, and be unlikely ever to be able to move into work. They will no longer be routinely reassessed. Rather than being defined through a list of specific medical conditions, the new severe conditions criteria is considered as part of the work capability assessment. This gives claimants the best opportunity to share with us the most up to date information about the functional impacts of their condition. Most claimants who meet the severe conditions criteria will have a decision made without having to attend a face-to-face assessment.

7 Work Choice statistics are now published annually. The next publication is due August 2018.

◆Working with employers to create employment opportunities and improve the work experience for disabled people and people with health conditions

The number of disabled people in employment will depend heavily on the commitment of employers to employ more disabled people. Our main way of promoting the benefits of employing disabled people is Disability Confident. Launched in November 2016, the Disability Confident scheme gives employers the tools to recruit, retain and develop disabled employees. The scheme takes employers on a journey from being Disability Confident Committed (level 1) to being a Disability Confident Employer (level 2) and finally to a Disability Confident Leader (level 3). As well as taking employers through an assessment process the scheme provides a range of advice, guidance and case-studies.

Employers commit to providing specific opportunities for disabled people when they join the scheme, including apprenticeships, internships or work experience as well as employment opportunities. The scheme can help employers at all levels – no employer is too small or inexperienced to become Disability Confident and no matter how knowledgeable an employer there will still be areas where they can improve with the help of the scheme.

More than 6,000 employers have signed up to the scheme, including all main government departments and 70% of local authorities. We are particularly encouraging employers with the largest workforces and therefore the most potential to employ disabled people to sign up but many small and micro employers have also become Disability Confident. The Disability Confident Business Leaders Group, comprising board-level representatives of prominent British businesses across all sectors, has been working closely with us to drive sign-up to Disability Confident and behaviour change amongst their supply chains and networks.

Disability Confident – employer levels achieved as at 31 March 2018	
Disability Confident Committed (level 1)	3,285
Disability Confident Employer (level 2)	2,639
Disability Confident Leader (level 3)	117
Total	6,041

Source: DWP Disability Confident: list of employers that have signed up to 31 March 2018

Since our accreditation in December 2016 we have worked with all other main government departments, helping them achieve Disability Confident Leader status, by November 2017. The Department for Work and Pensions and all other departments are now working with organisations in their supply chains to encourage and support them to also sign up.

Some people may need some workplace adjustments to overcome work-related barriers arising from a disability or illness. In most cases these will be no or low cost. For people with the greatest needs, we provide extra help with the costs of these adjustments via **Access to Work**. This is a publically funded employment programme that aims to help more disabled people to start or stay in work by providing practical or financial support.

The scheme is tailored to an individual's needs. This can include a workplace assessment, Mental Health Support Service assistance or a discretionary grant as a contribution towards extra travel to work costs, support workers or specialist aids and equipment.

Access to Work also supports some pre-employment activity, including some work experience, supported internships and traineeships. Individuals receive specific financial help in order to meet their needs and personal circumstances. The maximum annual amount last year was £42,100 and increased to £57,200 in April 2018. It can be applied for via an online service – making the application process quicker and more accessible for people and more efficient to administer. We are working on more digital improvements for the year ahead.

Latest statistics published in October 2017 show Access to Work provision was approved for 25,020 people in 2016-17. As these statistics are the first of a new series, they are not comparable with previously published Access to Work statistics.

◆Administering claims for Personal Independence Payment and reassessing Disability Living Allowance claims for 16 to 64 year old people for eligibility to Personal Independence Payment

Personal Independence Payment (PIP) helps people aged 16 to 64 with the additional costs associated with a disability or long-term health condition.

Disability Living Allowance (DLA) for people aged 16 to 64 has been replaced for new claimants by PIP since April 2013. In October 2013 we began to transfer existing DLA claimants who were aged 16 to 64 in April 2013 onto PIP. We have taken a controlled approach to this activity ensuring that we are ready and able to take claimants through the reassessment process in a timely and efficient manner.

Up to January 2018 we cleared over 2 million new claims to PIP and nearly 1.2 million reassessments with the average claimant completing the end-to-end process within 11 weeks. Average processing time from the beginning of a claim to its decision for both new claims and reassessments is down by nearly 75% since July 2014 as a result of our drive to continually improve our processes and services.

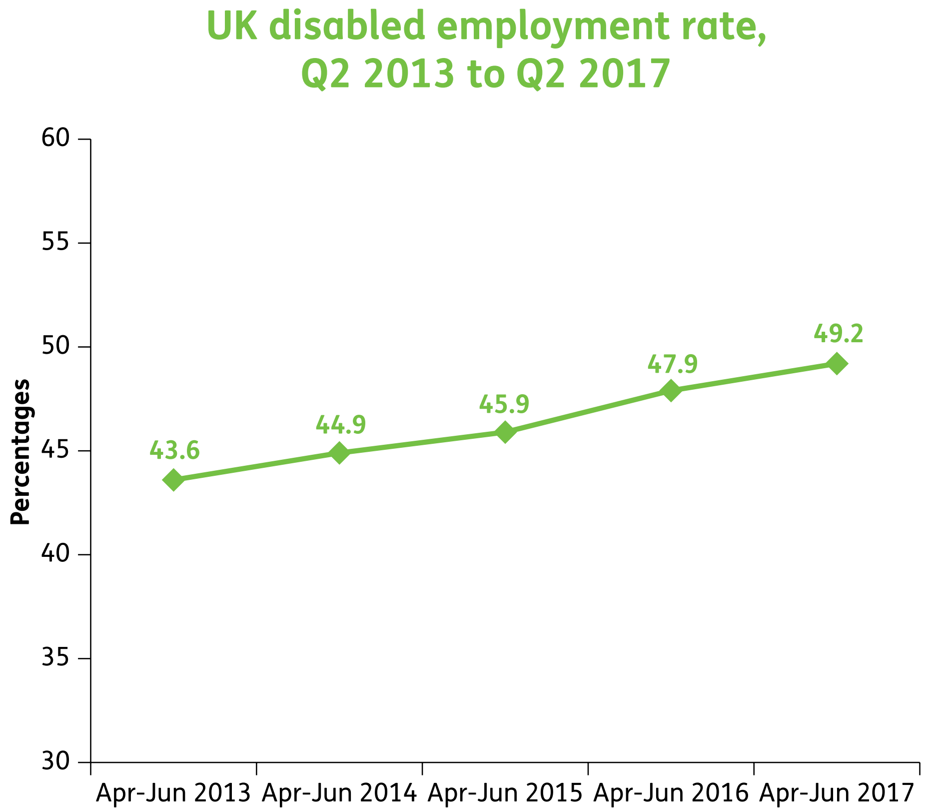
Our performance

We are measuring our progress in this objective through the following 2 headline indicators:

Headline indicator 4: UK employment rate of working-age disabled people

The UK employment rate of working-age disabled people between April and June 2017 was 49.2%. This has increased by 5.6 percentage points over the last 5 years from 43.6% in the same period in 2013, which is the start of the current data series.

Over this period the number of disabled people in employment has increased by nearly 600,000 to a total of 3.5 million people.



This indicator is measured using data from the Labour Force Survey published each quarter by the Office for National Statistics (ONS). The data is not seasonally adjusted so only year-on-year comparisons between quarters should be made. The definition of a person classed as disabled within the Labour Force Survey changed in 2013 and this has led to a step change in the levels of reported disability. This means the current rate cannot be directly compared to data earlier than quarter 2 in 2013.

ONS have identified an apparent discontinuity in Labour Force Survey estimates of disability, affecting data later than Q2 (April-June) 2017. Although estimates for more recent periods* appear to show further improvements in disability employment, ONS have made it clear that their investigations are not yet complete. We will await further advice from ONS on how these figures can be used in future. In the meantime, this report presents trends up to Q2 2017, the most recent estimates that ONS have published without data quality warnings.

*The full series of estimates published by ONS are available at the following link, alongside data quality warnings for estimates later than April-June 2017:

https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/labourmarketstatusofdisabledpeoplea08

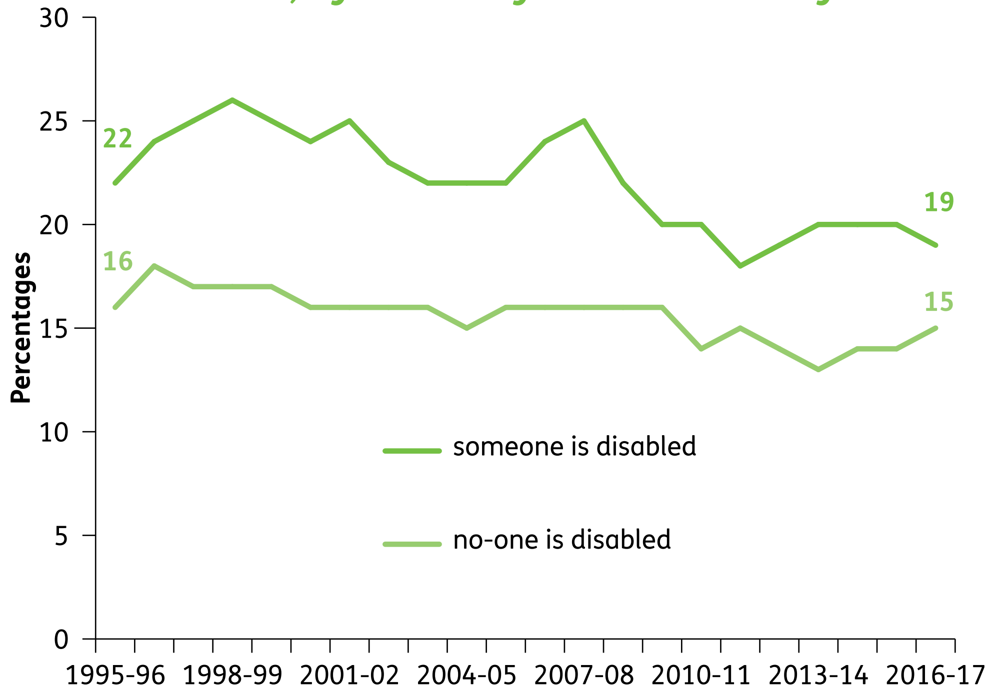
Headline indicator 5: percentage of disabled people with a low income

Those living in a family with a disabled member are more likely to be in low income than non-disabled families. The proportion living in a low income household, at 19% before housing costs (BHC), is low by historical standards.

The percentage of individuals in families who contain someone with a disability falling below headline low income measures BHC fell slightly between 2015-16 and 2016-17. On the absolute basis, low income also fell slightly to 16%. Relative low income fell by 1 percentage point to 19% between 2015-16 and 2016-17. None of these short-term changes were statistically significant.

Looking at low income rates BHC shows large reductions in rates of low income between 2007-08 and 2009-10, with smaller movements either side of this period.

Percentage of individuals with a low income, by disability status of family



Source: Households Below Average Income statistics 1995-96 to 2016-17

This indicator measures the percentage of households with someone with a disability living in low income households 'before housing costs'. Household income is equivalised to take account of the size and composition of households in which people live. The poverty estimate is then derived by separately counting how many individuals fall below 60% of the median equivalised income value for families with and without someone with a disability. Data is published annually in the 'Households Below Average Income series, Table 7a' on www.gov.uk. A reduction in this indicator would denote improvement. Estimates are derived from a sample survey and subject to statistical uncertainty. The means of identifying people with a disability has changed over time however, with different criteria applied for 2002-03 to 2003-04; 2004-05 to 2011-12; and 2012-13 to date, as such, changes over time in the number of individuals with disabilities could be affected by the changes in the disability questions. The focus should be on longer-term trends rather than year-on-year changes which may not be statistically significant.

Strategic objective 3: Increase saving for, and security in, later life

We are reforming the pension system to ensure it is sustainable, reflective of modern life, protected for future generations, and supports saving and personal responsibility for income in retirement.

We are encouraging people to plan and save for their retirement, with greater understanding and confidence in what they will receive from the state when they retire. The new State Pension represents the biggest change to the State Pension system for a generation. Through our online 'Check your State Pension' service people can see what they could get from the state when they reach State Pension age and whether there are any options for them to improve their forecast.

We are also helping working people to save into a workplace pension through our automatic enrolment programme. During 2017-18 we have continued the gradual roll out of automatic enrolment to small employers, introduced automatic enrolment for new employers and continued to support large and medium employers to re-enrol their workers every three years. We have also been working with employers to prepare for the first of two planned increases in minimum pension contribution levels – the first taking effect from 6 April 2018 and the second from April 2019.

Around two-thirds of the department's claimants are of State Pension age and this year we spent £108 billion on pensioner benefits.

Benefits / assistance administered	Amount paid out in 2017-18 in £ millions[8,9]
Christmas Bonus	126
Cold Weather Payments	64
Financial Assistance Scheme	212
Housing Benefit	5,878
TV licences for people aged 75 years and over	655
Pension Credit	5,368
State Pension (including new State Pension)	93,804
Winter Fuel Payments	2,022
Other benefits below £50m	7
Total	**108,135**

8 Numbers may not sum due to rounding.

9 Benefits breakdowns are based mainly on Annual Managed Expenditure (AME) but also include some benefits paid out of Departmental Expenditure Limits (DEL). The breakdown by claimant group is based on DWP statistical data. More detail can be found in the DWP benefit expenditure tables on www.gov.uk.

The following bodies have been established at arms-length from central government to deliver a range of functions to ensure that people can have confidence in saving for their retirement:

- NEST (National Employment Savings Trust)
- The Pensions Regulator
- The Pensions Advisory Service
- The Pension Protection Fund
- The Pensions Ombudsman/Pension Protection Fund Ombudsman

We work in partnership with these bodies to ensure that the services they provide are delivered effectively and that they provide value for money to the taxpayer.

What we've been doing

◆Giving people a firm state foundation on which to plan their retirement income

The new State Pension celebrated its second anniversary on 6 April 2018. It has brought clarity to a system that had become increasingly complex over the years. Young people now know that with 35 years of National Insurance Contributions, they will receive over £8,500 a year from the state when they reach State Pension age. The new State Pension works hand in hand with automatic enrolment as it enables young people to plan for their additional retirement saving.

Through the 'Check your State Pension' digital service people can find out when they could receive their payments, how much they may be able to receive and what they can do to increase their amount. Over 91% of people wanting to find out about their new State Pension are using this digital service, while others continue to use the postal service. Since its launch in February 2016, over 7 million people have visited the '*Check your State Pension*' service.

There are currently around 13 million pensioners receiving a State Pension, 1.2 million of them living overseas. Around 400,000 people become eligible for the new State Pension each year.

In February 2018 the 'Get your State Pension' digital service replaced the 'State Pension online' service. The new service has been developed in a flexible way, to deliver a safe and secure digital service which meets people's needs. Around 4 months before a person reaches State Pension age, we send them a letter with a personalised code to access the service along with details of how to use it.

We trialled the new service for a few months before rolling it out nationally. Feedback showed it significantly improved the way in which people can claim their State Pension , 96% of users were satisfied or very satisfied with the service and 97% found it easy or very easy to use. It takes on average around 7 minutes to complete a State Pension claim online. The new service also brought automation to the processing of the more straightforward claims, reducing the costs of administration.

◆Ensuring the pension system is fair, sustainable and protected for future generations

As people are living longer, regular review of the State Pension age is necessary to ensure that the State Pension system remains sustainable as life expectancy grows.

A girl born in 1951 in the UK was expected to live to 81.6 years and a boy born in 1951 to 77 years. By 2018 these figures have increased by over 10 years for newly born girls who can now expect to live to 92.2 years and by over 12 years for newly born boys who can now expect to live to 89.6 years.

Furthermore increases in life expectancy for both sexes are expected to continue. By 2066 life expectancy at birth is expected to rise by almost 6 years for women and over 6 years for men compared to 2018. This is an increase of a little over one year for every 9 years for women and a little over one year for every 8 years for men, with a baby girl expected to live until 98.1 years and a baby boy to 96.1 years.

And as a result of these and other demographic changes, the number of people over State Pension age in the UK is expected to grow by around a third (33.9%) over the next 25 years, from 12.3 million in 2018 to 16.4 million in 2043 – an increase of 4.16 million.

The Pensions Act 2014 introduced structured reviews of the State Pension age to ensure the costs of increasing longevity are shared fairly between generations, and provide greater clarity around how State Pension age will change in the future. The government is required to publish a review report at least every 6 years and Parliament must approve any changes. The report of the first review was published on 19 July 2017.

The review was informed by 2 independent reports published in March 2017:

- analysis by the Government Actuary of future possible State Pension age timetables, calculated from the latest life expectancy projections and based on specified proportions of adult life that individuals in the future could expect to spend in receipt of State Pension
- an independent review of State Pension age led by John Cridland CBE

The government's report, in line with the independent reviewer's recommendation, proposed increasing the State Pension age to 68 years between 2037 and 2039, bringing it forward from its current legislated date of 2044 to 2046.

The government also stated that it will carry out another review before bringing forward the rise in State Pension age to 68 years. This will allow us to consider the most up-to-date life expectancy projections and to evaluate the experience of increasing the State Pension age from 65 to 66 years.

The government's view is that we should aim for each generation to enjoy a roughly similar proportion of life spent in state supported retirement. Further reviews will aim to keep this proportion consistent to maintain sustainability and fairness for future generations of taxpayers.

The government also recognised the need to deliver certainty for future pensioners and agreed with the independent reviewer that there is a need to have a clear strategy for communicating future changes to State Pension age. The review promises to:

- build on current communication strategies and make the most of digital channels to ensure a clear plan for communicating future changes to help future pensioners with wider financial and later life employment planning

- seek to provide a minimum of 10 years' notice for individuals affected by future changes to their State Pension age

◆Giving eligible employees the opportunity to save into a workplace pension

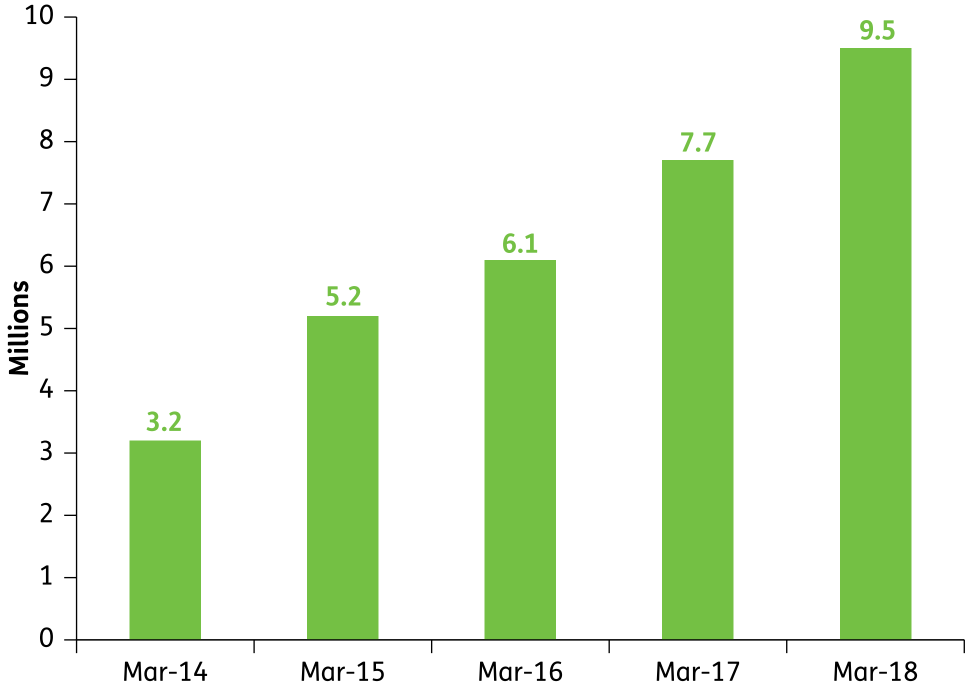
Under the Pensions Act 2008, every employer in the UK must put eligible employees into a workplace pension scheme. This is called 'automatic enrolment'. Both the employee and the employer must contribute towards it. Employees may actively choose to opt out, however these remain low at around 9%. By the end of March 2018, over 9.5 million people have been automatically enrolled into a workplace pension and over 1.1 million employers have fulfilled their duties to automatically enrol their eligible employees since 2012. Automatic enrolment has reversed the previous decade-long decline in workplace pension saving, changing the culture of saving.

There has been most change among younger workers and low earners. In 2012, 65% of women employed full-time in the private sector did not have a workplace pension. By 2017 this had fallen to 24%. Amongst eligible employees in the private sector, the workplace pension participation rate for women is 80%. Young people are also embracing pension saving and almost 80% eligible 22 to 29 year olds working in the private sector are now enrolled in a workplace pension.

This year we have worked with employers to prepare for the first increase in contributions, to 5% of banded earnings, from April 2018. Next year we will prepare for the second increase to a total of 8% of banded earnings from April 2019.

In October we launched a new multimedia campaign called 'Get to know your pension'. The campaign aims to educate employees of the many benefits of staying in a workplace pension as well as encouraging employers to comply with their duties. The campaign has received the backing of 3 celebrities who have made a series of online videos to encourage people to stay enrolled and save for their future.

Number of eligible employees automatically enrolled



In December 2017 we published our review of automatic enrolment. The review, which looks at past, present and future workplace pension saving, acknowledges that since its launch in 2012 automatic enrolment has helped change the financial behaviour of millions of people who now view pension contributions as a normal part of their pay package.

One of the main proposals in the review is extending automatic enrolment to young people from the age of 18 years. When implemented, we expect this to result in 900,000 young people saving an additional £800 million through a workplace pension.

Other proposals include workplace pension contributions being calculated from the first pound earned, rather than from a lower earnings limit. We are working towards our ambition of introducing changes to the automatic enrolment framework by the mid-2020s in partnership with employers and the pensions industry. We are also developing targeted interventions to support pension saving among the 4.8 million self-employed people in the UK.

◆Helping people make pensions work for them

Since April 2015 Pension Freedoms have given people aged 55 years and over more choice in how they access their pension savings. Between April 2017 and March 2018, 375,000 people received a flexible payment derived from their pension savings. This amounted to 1,791,000 payments with a total value of £6.65 billion. Some pension scheme providers charge people for making use of their pension freedoms. The Pensions Scheme Act 2017 has introduced powers to cap early exit charges, and to ban commission charges in schemes used for automatic enrolment.

Pension Wise provides free and impartial guidance to people aged 50 years and over with a defined contribution pension, to help them understand their options. Defined contribution pensions build up an individual fund or 'pot' of pension savings. In an appointment, Pension Wise guidance specialists discuss what people can do with their pension pots, explain how to shop around and what to look out for with taxes, fees and scams. Pension Wise delivered 87,470 face to face and telephone appointments in 2017-18, an increase of 32% on the previous year, over 34,000 online appointments and over 2 million visits to the Pension Wise website.

Research conducted by Ipsos Mori and published in October 2017 showed that 97% of Pension Wise users would recommend the service to others or had already done so.

Single financial guidance body

The Financial Guidance and Claims Act 2018 provides for a new single financial guidance body which will bring together the services currently delivered by the Money Advice Service, the Pensions Advisory Service and Pension Wise. The new body will provide better access to good quality, free and impartial debt advice and money and pensions guidance.

The new single financial guidance body will also be responsible for developing and coordinating a national strategy to improve the ability of members of the public to make financial decisions by working closely together with partners from the financial services industry, the public and voluntary sectors, and the devolved administrations.

Pensions dashboard

We are exploring the development of a pensions dashboard to give people a clear view of all their pension information in a single place online. The government is working with the regulators, industry and other sectors to consider how we can work together to make the pensions dashboard a reality. The department has been conducting a feasibility study, the conclusions of which will inform our approach to delivery.

Protecting defined contribution pension savers

The government is committed to making sure that every pound put into pension schemes – by employers, employees, or taxpayers - works as hard as it can to deliver members a return and savings for retirement. The cap on scheme charges protects members of schemes used for automatic enrolment, and we are committed to reviewing whether it should be lowered further in 2020.

Master Trust schemes provide workplace pensions to groups of employers that are not connected with each other. Membership in these schemes has grown from around 200,000 in 2010 to over 9.9 million in January 2018. From October 2018 Master Trust pension schemes will be required to be authorised and to continue to meet the authorisation criteria to be able to continue to operate in the pensions market. Those schemes that are not authorised will be required to wind up and their members transferred to another scheme. This approach will provide improved protection to scheme members.

DWP and the Financial Conduct Authority have made regulations and rules that require detailed information on the costs of defined contribution schemes to be given to trustees and to members as well as being published. Additionally they are required to explain how they've assessed the value they deliver.

We have contributed to Project Bloom, a cross-government task force, to coordinate actions to tackle scams and to raise awareness of the risks posed by scams.

We also undertook a joint consultation with HM Treasury in December 2016 on a package of measures aimed at tackling pension scams. The response to this consultation, which was published in August 2017, confirmed that we, HM Treasury and HM Revenue and Customs would bring forward legislation to:

- ban cold calling in relation to pensions
- prevent the transfer of money from occupational pension schemes into fraudulent ones; and
- make it harder for fraudsters to open small pension schemes by tightening the HM Revenue and Customs rules for registering pension schemes

The Finance Act 2018 implemented the tighter registration rules and the Financial Guidance and Claims Act 2018 makes provision for regulations to be made to ban pensions cold calling. We will bring forward legislation to enable trustees to make sure that pension savings are transferred to safe destinations such as authorised Master Trusts and not fraudulent pension schemes. This legislation will be brought in following the roll-out of the Master Trust authorisation regime in 2018-19.

Defined Benefit White Paper

In March 2018, we published the Defined Benefit White Paper, *Protecting Defined Benefit Pension Schemes*. This followed a comprehensive consultation exercise which took place the year before.

The white paper set our ambition to maintain confidence in the defined benefit system by increasing the protection of members' benefits. Our proposals are set against two main themes to achieve that, whilst balancing the need to consider the sustainability of the sponsoring employer:

- **A tougher approach to the minority of employers** whose irresponsible behaviour puts their pension scheme at risk by giving the Pensions Regulator additional powers to prevent and punish wrongdoing; and
- **Improvements to the system for all employers and schemes** by clarifying scheme funding principles, making it easier for the regulator to intervene earlier and for schemes to consolidate to gain benefits of scale

The majority of proposals require either new, or changes to existing, primary legislation. In some cases, further consultation will take place in 2018 to finalise the design of proposals. We intend to introduce legislation to bring forward these changes as soon as parliamentary time allows.

◆Protecting pensioners on a low income

Pension Credit protects pensioners on a low income. Pension Credit tops up any income already received to a standard minimum amount, with higher amounts for pensioners with caring responsibilities, a severe disability or certain housing costs. In 2017-18 we paid out £5.4 billion on Pension Credit. Pensioners on a low income may also get help with their rent through Housing Benefit.

Winter Fuel Payments help pensioners with the cost of heating their homes and free TV licences are available for all pensioners aged 75 years and over. Some pensioners may also get Cold Weather Payments for periods of extremely cold weather. In 2017-18 we paid out £2 billion on Winter Fuel Payments.

The Christmas Bonus is a one-off tax-free payment of £10 made to people in receipt of certain benefits, including the State Pension.

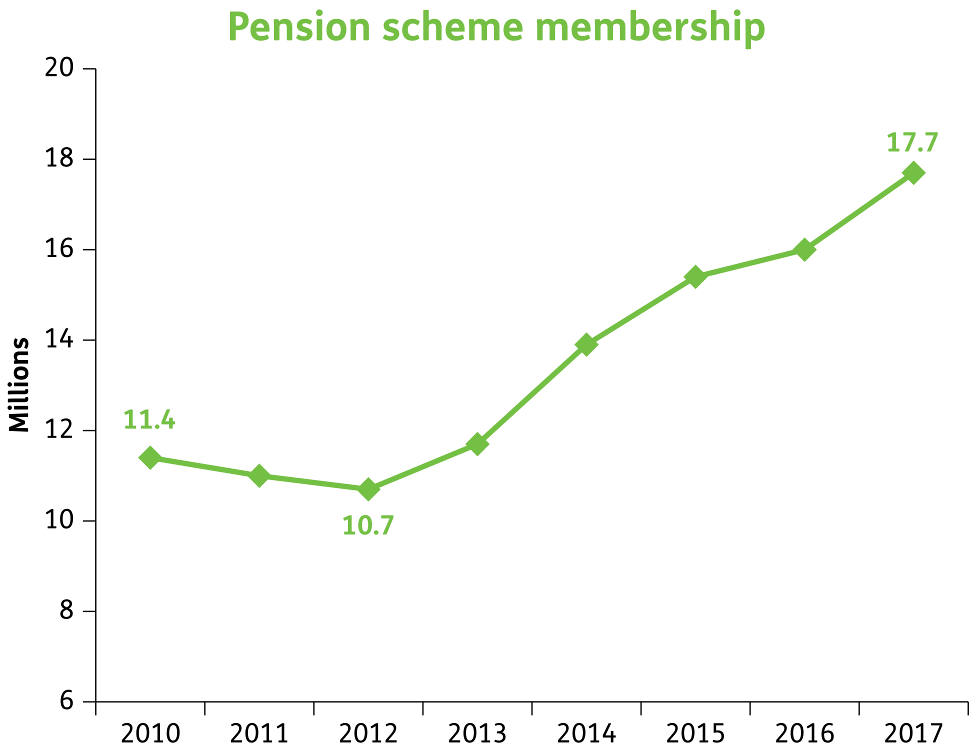
In addition we continue to increase the basic State Pension through the 'triple lock', the highest of earnings, Consumer Price Index or 2.5%.

Our performance

We are measuring our progress in this objective through the following 3 headline indicators:

Headline indicator 6: number of eligible employees in a pension scheme sponsored by their employer

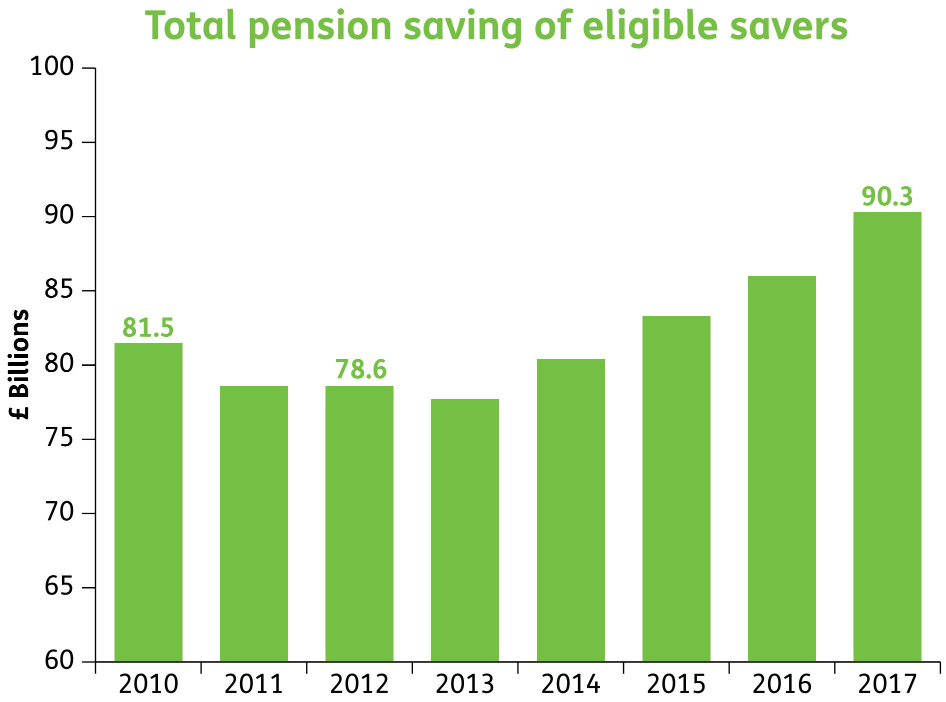
The number of eligible employees in a pension scheme sponsored by their employer in 2017 was 17.7 million, compared to 16.0 million in 2016. The number of eligible employees in a pension scheme sponsored by their employer has increased by 7 million since 2012 when it was 10.7 million eligible employees.



This indicator measures the number of employees (excluding self-employed people) saving into a pension scheme sponsored by their employer who are at least 22 years old, under State Pension age, and earning above the earnings threshold (£10,000 in 2016-17) for automatic enrolment. Data is published annually in the DWP official statistic 'Workplace pension participation and trends'. An increase denotes an improvement in this indicator. More detail on this indicator can be found in the Department for Work and Pension technical annexes on www.gov.uk.

Headline indicator 7: total pensions savings of eligible savers

The annual total amount saved for eligible employees stood at £90.3 billion in 2017 compared to £86.0 billion in 2016. Total annual savings are now £11.7 billion higher than the £78.6 billion saved in 2012, when automatic enrolment was introduced.



This indicator measures the total amount saved into pension schemes by eligible savers, defined as those eligible employees who are saving into a workplace pensions sponsored by their employer. The amount is the combined total of employee, employer and tax relief contributions. Data is published annually in the Department for Work and Pensions official statistic 'Workplace pension participation and trends'. An increase denotes an improvement in this indicator. More detail on this indicator can be found in the Department for Work and Pensions technical annexes on www.gov.uk.

Headline indicator 8: percentage of pensioners with a low income

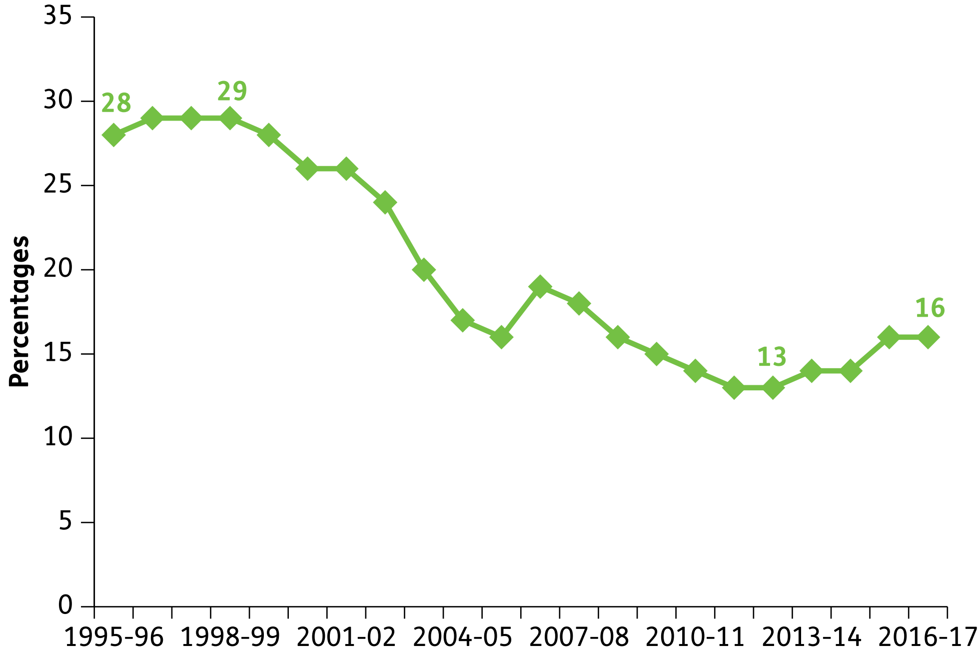
Living standards for pensioners have been rising for many years. The percentage of pensioners in low income households remains lower than for the overall population. The proportion living in a low income household remained at 16% after housing costs (AHC) and is still low by historical standards.

Around 75% of pensioners live in homes that are owned outright and, therefore, they have minimal housing costs. This compares to around 20% of the working-age population. The government's preferred measures of low income for the pensioner population are, therefore, estimated on an after housing costs (AHC) basis to draw out the difference in living standards for the minority of pensioners who do have housing costs.

The percentage of pensioners falling below headline low income measures AHC remained the same between 2015-16 and 2016-17. On the absolute basis, low income fell slightly to 13% and remains in line with positive long-term trends observed for pensioners. Relative low income increased by 2 percentage points to 16% between 2014-15 and 2016-17. None of these short-term changes were statistically significant.

Compared to the overall population, pensioners have been less likely to fall below headline low income measures AHC since 2003-04. Furthermore, the proportion of pensioners living in low income households is now 13 percentage points lower than it was 20 years ago.

Percentage of pensioners with a low income



Source: Households Below Average Income statistics 1995-96 to 2016-17

This indicator measures the percentage of pensioners living in low income households 'after housing costs'. Household income is equivalised to take account of the size and composition of households in which people live. The poverty estimate is then derived by counting how many pensioners fall below 60% of the median equivalised income value. Data is published annually in the 'Households below average income series', table 6.1 on www.gov.uk. A reduction in this indicator would denote an improvement. Estimates are derived from a sample survey and subject to statistical uncertainty. Therefore, the focus should be on longer-term trends rather than year-on-year changes which may not be statistically significant.

Strategic objective 4: Maximise the number of children benefiting from an effective child maintenance arrangement, encouraging family-based arrangements where appropriate, and reduce parental conflict in families

Research shows that workless families are three times more likely to experience relationship distress than families where both parents are working, so we are working with parents to reduce conflict and to lift more children out of poverty.

We are investing in a new programme to reduce relationship distress so fewer children have to live with parental conflict and couples can access proven support to increase collaboration, whether they are together or separated.

It is important that all parents work together in the best interests of their children. Through the Child Maintenance Service we encourage separated parents to work together to agree a family-based child maintenance arrangement for each child's everyday living costs and when this is not possible, the statutory child maintenance scheme is there to ensure all parents contribute towards the upkeep of their children.

What we've been doing

◆Supporting parents in relationship distress so fewer children live with conflict

We recognise that children's life chances are closely linked to their family circumstances. 'Improving Lives: Helping Workless Families', published in April 2017, announced the new Reducing Parental Conflict programme, which aims to support local areas to integrate proven interventions to reduce parental conflict into mainstream services for children and families. The new programme will be backed by funding of up to £32 million for the next two financial years and we are currently working with a wide range of stakeholders to implement the programme. This has included holding engagement events for local areas and potential suppliers, in advance of inviting suppliers to tender for contracts.

We currently let contracts with several voluntary sector suppliers of relationship support services. We have extended these contracts while we develop our new Reducing Parental Conflict programme.

Through our suppliers we are providing preventative support for couples and parents during key life events. In 2017-18 we funded 29,000 face to face relationship support sessions and around 26.5 million online user support opportunities.

◆Encouraging parents to work together to agree family-based child maintenance arrangements

The principles of the statutory child maintenance scheme are based on encouraging cooperation between separated parents. Many separated parents successfully agree financial arrangements for their children between themselves without any help but some may need support.

Separated parents requiring support are encouraged to collaborate and make family-based arrangements where possible. A statutory scheme exists to support those parents who cannot agree but this is not the default solution.

Child maintenance can make a real difference to the lives of children as it can help to pay for things like food, clothing and other essentials. Family-based arrangements (also called family arrangements, voluntary arrangements or private agreements) are child maintenance arrangements which parents have agreed between themselves.

Child Maintenance Options provides free and impartial information to help separated parents make informed decisions about child maintenance, including what type of arrangement is best for them.

◆Running an effective statutory child maintenance scheme for parents who cannot agree family-based arrangements

Our priority is for children to get the financial support they need. The Child Maintenance Service (CMS) delivers a statutory child maintenance scheme for separated parents who are unable to agree family-based arrangements. Child Maintenance Options also provides the gateway to the statutory scheme.

Fees and charging for the statutory child maintenance scheme are designed to encourage separated parents to consider or work towards making a collaborative family-based arrangement. Family-based arrangements help to reduce conflict and tend to lead to better outcomes for the children involved.

Separated parents are charged a £20 application fee to use the statutory scheme, but there are some exemptions. Where a child maintenance arrangement is made through the statutory scheme, we encourage separated parents to then arrange payments between themselves. We call this 'direct pay'. There are no collection charges or fees for 'direct pay'. Where this is not possible we can collect and pass on payments but both parents are charged for this service.

CMS will take action, which may include enforcement action, if child maintenance agreed through statutory arrangements is not paid. Parents paying via 'direct pay' must notify CMS if payments are not being made and request action to be taken. We have a range of strong enforcement powers, intended to ensure all parents fulfil their financial responsibilities to children. The welfare of the children involved and the likelihood of successful outcome are among the factors considered when deciding on the appropriate enforcement action.

Latest child maintenance statistics for CMS and latest Child Support Agency (CSA) quarterly statistics for older schemes up to December 2017 show:

- the number of children benefiting from a Collect & Pay arrangement or in a Direct Pay arrangement is 445,800, an increase of 118,000 since December 2016. This is increasing at approximately the same rate as the size of the total caseload
- 17,900 children continued benefiting from maintenance under the older statutory schemes – a 198,000 reduction compared to December 2016, as cases are closed and parents choose whether to apply to the 2012 scheme
- the March 2018 statistics will be released in late June 2018 and published on gov.uk

Closing the CSA is a key element of the 2012 Child Maintenance Reforms which aim to have all child maintenance cases managed by a single service that is more efficient and effective. To encourage collaboration and reduce dependency on the statutory scheme, CSA cases are being closed, and CSA users signposted to Child Maintenance Options to ensure they can make informed decisions about their future child maintenance arrangements.

The CSA case closure programme has been delivered in line with our expectations, and we are on course to end liabilities on all CSA cases by the end of 2018 as planned. We plan to launch a revised compliance and arrears strategy for child maintenance later in 2018, following a consultation exercise earlier this year. The strategy will include our approach to outstanding historical debt in CSA cases.

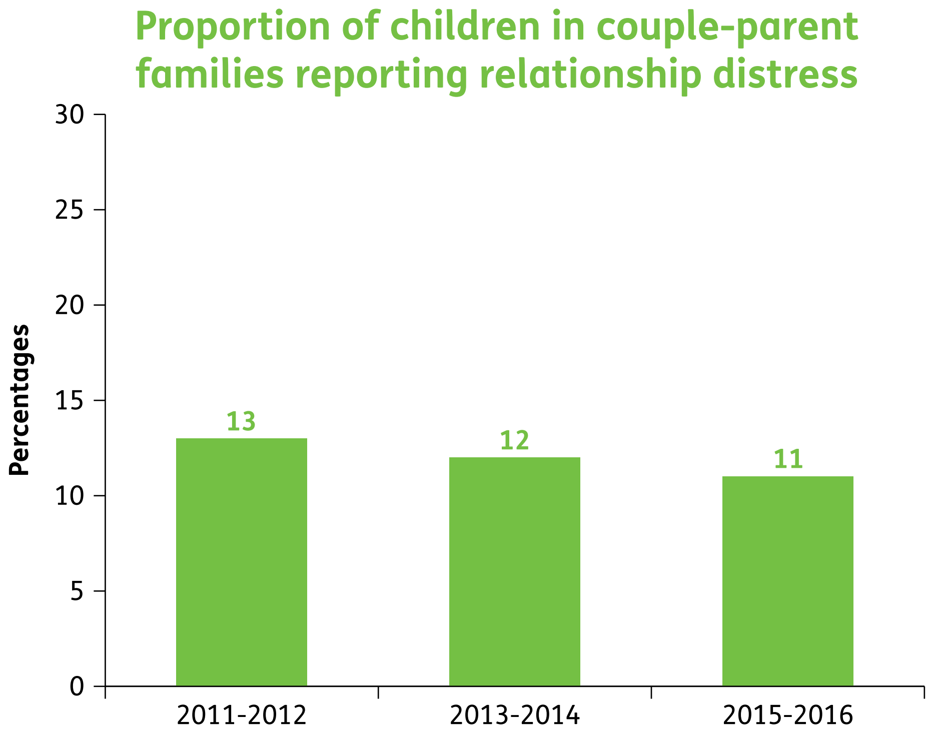
In October 2017 we announced new powers which will allow deductions to be made from jointly held bank accounts in order to recover child maintenance arrears. Currently deductions can only be made from accounts held in the sole name of the parent paying maintenance. A small minority of parents are avoiding paying for their children by putting their money into a joint account. Safeguards will be put in place to protect the other holder of the joint account. We aim to bring these changes into effect from late 2018. We expect the new powers to raise around £570,000 in additional child maintenance every year.

Our performance

We are measuring our progress in this objective through the following 2 headline indicators:

Headline indicator 9: percentage of children living with parents in relationship distress in couple families

In 2015-16, 11% of children in couple-parent families were living with at least one parent reporting relationship distress. This is the latest available data. This represents a fall of 1 percentage point from 12% in 2013-14.



A couple-parent family is classified as experiencing relationship distress if either parent responds that most or all of the time they consider divorce, regret living together, get on each others' nerves, or quarrel, in response to questions asked about their relationship with their partner. A reduction denotes an improvement in this indicator. The data is derived from the 'Understanding society' survey using questions around relationship quality which are asked in the survey every 2 years. Data for 2015-16 is the latest data and was published in March 2018. More detail on this indicator can be found in Department for Work and Pensions technical annexes on www.gov.uk

Headline Indicator 10: percentage of separated families with a maintenance areement

The process of refreshing this indicator has revealed significant issues with its methodology, therefore we have withdrawn it from this publication. We are currently developing a new indicator to be published by the end of 2018.

Strategic objective 5: Transform the way we deliver our services to improve quality and reduce costs

We are building a department for the future: a department that embraces digital technology to provide quicker, easier and more efficient services for our customers and, continues to drive down its running costs, improve its customer service and provide value for money for UK taxpayers.

Government spending is divided into 2 categories:

- Departmental expenditure limit (DEL) is set at a spending review for a specified forward period. It covers the department's running costs and programme costs. Our running costs include things like salaries and contract costs for technology, estates, health assessments and employment support. Our programme costs include implementing change, such as Universal Credit
- Annually managed expenditure (AME) includes the costs of the benefits that we pay out and is demand-led. We forecast our expenditure and review these forecasts twice a year

◆Departmental expenditure limit

The Spending Review 2015 set out our departmental expenditure limit (DEL) to 2019-20. In 2017-18 our DEL budget was £6.7 billion. DEL spend in 2017-18 was £6.5 billion. Overall, since 2009-10 we have reduced our annual DEL spend by £3 billion with a cumulative year-on-year saving of £14.7 billion. This reduction is in part due to the country's economic recovery which has reduced demand for some of our services but it is also due to efficiencies we have made by changing the way we deliver our services.

Annual running costs (DEL resource) in £s million

09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18
9,060	9,152	7,624	7,496	7,606	7,145	6,473	6,161	6,108

Source: Core Table 1 (unaudited) DWP Annual Report and Accounts 2017-18

Our £6.5 billion DEL spend consists of salaries and wages, support to help the people that use our services find or move nearer to work, IT, estates and other goods and services to help run our business. More information can be found in the financial report on page 184.

Living within our spending review settlement is challenging. We continue to look across the whole of our business to identify efficiencies and new ways of working which will reduce our running costs and improve our customer service.

Benefit expenditure

We make benefit and pension payments to around 20 million[10] people each month to support them through life events such as being out of work, retirement and disability. In 2017-18 these payments totalled £177.5 billion[11]. This was £4.5 billion more than in 2016-17, with the increase being mostly accounted for by the annual up-rating of benefits and pensions.

10 Source: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/682581/dwp-quarterly-benefits-summary-february-2018.pdf

11 Includes £177.2 billion of Annually Managed Expenditure and around £0.3 billion paid out of Departmental Expenditure Limit (DEL). The breakdown by claimant group is based on DWP statistical data. More detail can be found in the DWP benefit expenditure tables on www.gov.uk

DWP benefit expenditure summary	2017-18 expenditure £bn[12]
Benefits paid to pensioners, of which:	**119.6**
State Pension	93.8
Disability, incapacity and carer benefits	11.5
Other benefits	14.3
Benefits paid to working age people and children, of which:	**57.8**
Disability, incapacity and carer benefits	39.6
Other benefits	18.2
Total benefit expenditure	**177.5**

Overall, more than two-thirds of benefit spending went to pensioners, with the State Pension, at £93.8 billion, accounting for more than half of all spending. Equalising the State Pension age meant that the number of people receiving a State Pension was down slightly this year at around 12.8 million. However, uprating of the basic State Pension in line with the “triple lock” at 2.5%, and additional pension in line with the Consumer Prices Index at 1.0% meant spending was higher.

Nearly 30% of benefit spending (£51.1 billion) supported people with a disability or health condition (including pensioners)[13].

Apart from the State Pension and disability, carer and incapacity benefits, around £33 billion was spent on a range of other benefits, broadly evenly split between pensioners and working-age people.

The **welfare cap** sets a limit on spending in one year of the forecast period over a subset of welfare benefits paid across our department, HM Revenue and Customs, Department for Business, Energy and Industrial Strategy and the Northern Ireland Department for Communities.

HM Treasury sets the level of the cap, the year in which it will apply at and sets a pathway for relevant welfare spending in each year of the cap period. HM Treasury also set a percentage margin for the cap and pathway in each year, which is considered appropriate to provide for pressures on, and fluctuations in, capped welfare spending.

The Office for Budget Responsibility (OBR) has formal responsibility for assessing the welfare cap. The previous welfare cap was set at Autumn Statement 2016 and assessed by the OBR at Autumn Budget 2017. The OBR found that the relevant forecast spending was above the cap in 2021-22 but below the cap-plus-margin once adjustments for inflation was applied. On that basis, the OBR judged that the terms of the cap were met.

HM Treasury also set a new welfare cap at Autumn Budget 2017, in line with the OBR’s forecast for welfare expenditure. The current welfare cap applies in 2022-23 with the next formal assessment being based on the forecast at the first fiscal event of the next Parliament.

The latest OBR forecast shows that we are on track to meet the terms of the welfare cap at 2022-23.

12 Numbers may not sum due to roundings.
13 Disability, incapacity, industrial injuries and carer benefits, and associated Housing Benefit. Equivalent spending in Universal Credit is not included.

More detailed information on benefit expenditure outturn and forecasts is available in our benefit expenditure tables on www.gov.uk

Workforce

We are building a smaller, more skilled and engaged workforce. We are doing this by transforming and improving our services and managing our workforce numbers to reflect the changes we have been making. In 2017-18 we spent £2.82 billion on staff salaries, an increase of approximately 1.2% on 2016-17 reflecting the pay award.

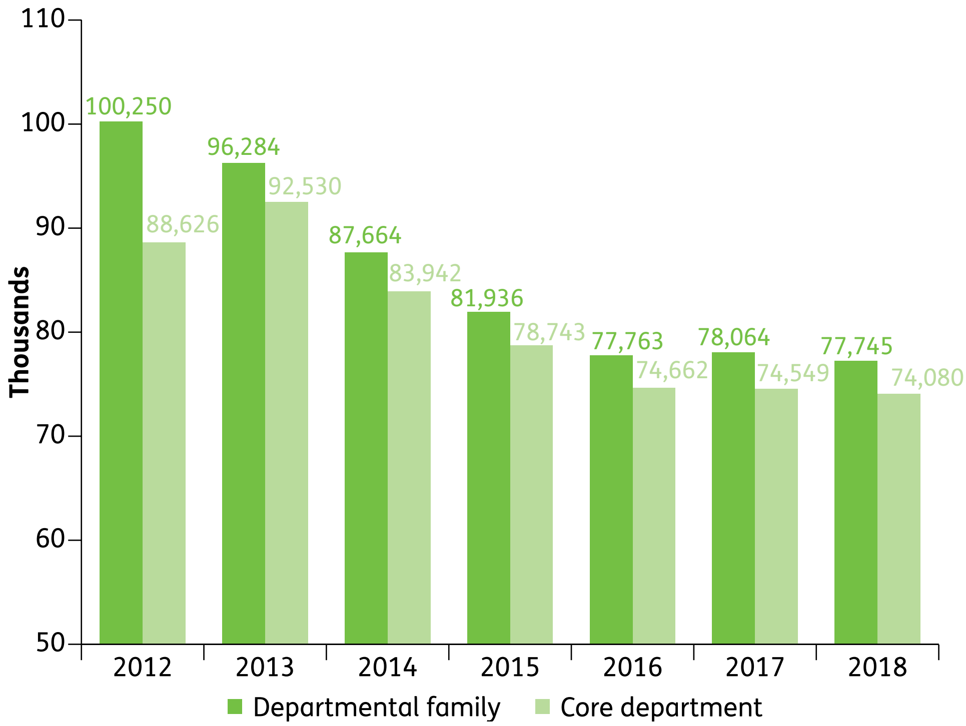
Workforce resourcing

We take a strategic approach to workforce resourcing which enables us to transform the way we operate, make efficiencies and introduce major reform. We design our workforce plans to support the delivery of our flagship projects, such as the rollout of Universal Credit, and to make sure we have the right colleagues and resources to support our ongoing digital transformation.

We created a public body, BPDTS Limited, in late 2016 to provide dedicated digital services to the DWP to deliver on the digital agenda and outcomes for the DWP while reducing supplier overheads. This is part of our wider ambition to secure leading digital services for the DWP whilst optimising value for money.

During 2017-18 we managed our resources tightly and decreased the overall workforce in the core department to 74,080 full-time equivalents. This has enabled us to deliver new work and ministerial policy priorities at a busy time, while also ensuring we have sufficient resources to continue the roll-out of Universal Credit. Since March 2012 we have, overall, reduced our core staffing by around 14,500 full-time equivalents.

Departmental family and core department staffing (whole time equivalents) as at 31 March



During 2017-18 we reviewed our recruitment process. We are piloting new approaches to resourcing, which include alternative approaches to purely competency based.

In order to meet future needs, we have been refreshing our workforce, bringing in new postings through recruitment and promotion. However, with annual turnover remaining at around 5,000 full-time equivalents and a significant demand for our services, we were able to redeploy over half of colleagues at risk of redundancy to other jobs within our department, with the remaining 320 colleagues accepting voluntary redundancy packages and keeping compulsory redundancy to a minimum.

In 2018-19 we will continue to monitor resourcing plans against affordability while continuing to reduce demand, find further efficiencies, rebalance our workforce and recruit new people.

Employee Deal

We continue to embed the new ways of working enabled by the Employee Deal[14] through teams working together to ensure a more consistent pattern of working hours spread across the day.

We know there is still demand from people wanting to use our services outside our existing opening hours. Following discussions with our trade unions, and in line with the Employee Deal Collective Agreement, we will begin to extend our opening hours in some parts of the business to 8:00pm, Monday to Friday, from August 2018.

Leadership

Building our leadership and line management capability at all levels has been a key focus within our department since 2013. The DWP Story and the Changing Futures programme have been the primary channels through which we engage with colleagues to encourage leadership behaviours, and connection with and commitment to our department as a whole. Around 16,000 staff have attended the Changing Futures programme so far. The programme is led by senior leaders within the department.

Building on the success of the DWP Story and the Changing Futures programme, we have seen a 16 percentage point rise in employee engagement over a 6 year period and for the second year running, our People Survey showed 88% of staff believe leadership is part of everyone's role in our department.

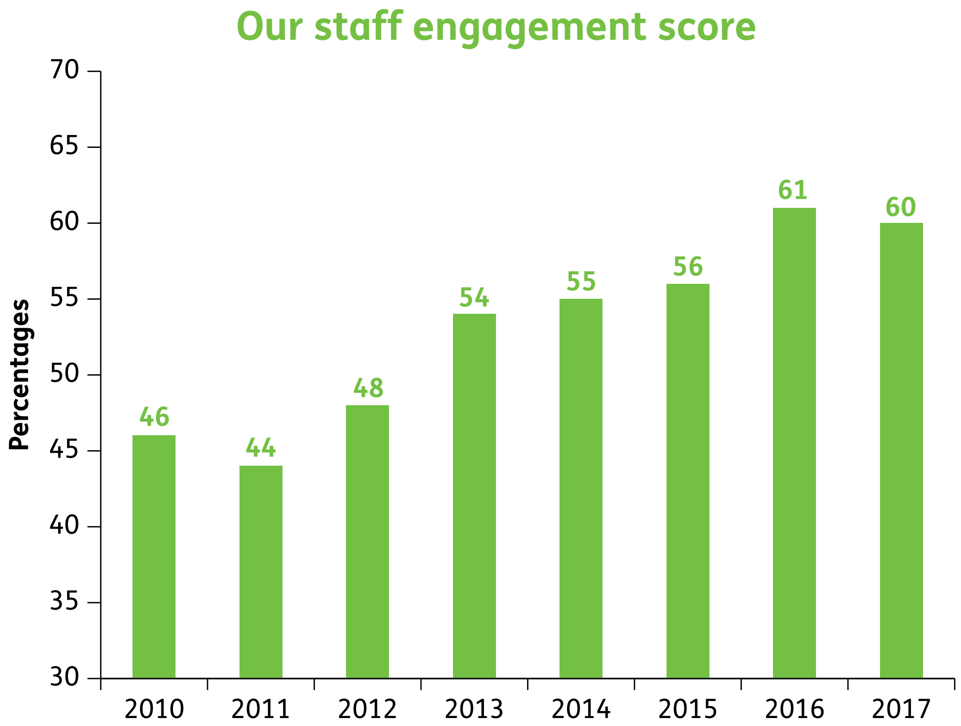
As we continue to transform our organisation, great leadership will continue to play a pivotal role. In 2018-19 we intend to improve our induction, roll out a new leadership and management programme focussed on key leadership behaviours, embed the Leadership Academy offer, and continue to build employee engagement through offering a positive work environment for all our employees.

Staff engagement

In 2017, 57,250 DWP employees completed the civil service people survey to determine the measure of staff engagement with the department. The survey is a vital means through which we listen to the voice of our colleagues. In 2017, we achieved an engagement score of 60%. This represents a small overall change compared to 2016 when we achieved 61%.

14 The Employee Deal enabled over 80% of our employees to adopt modern terms and conditions of employment which include flexibility in hours, location and mobility in return for a 4-year pay deal.

We are, however, maintaining a significant improvement when compared to 56% in 2015 and 44% in 2011. Within the context of all the change that employees have been through over the past year, including announcing location moves that affected around 15,000 colleagues, this is a considerable achievement.



Of the 9 main themes in the survey we maintained or increased our scores for 6 of them. Our score for 'My Team' was 86% this year, which is 6 percentage points above the civil service median score. The high level on this indicator demonstrates the supportive and enjoyable working environment our department provides. We are always seeking to improve our staff engagement and are taking some of the lower scores we received as guidance for areas to focus on for the year ahead. For instance, the key theme that has not improved in the past year is learning and development, so we will be focusing on this in the coming year. And although our bullying and harassment scores remain stable, reported discrimination has recently seen a rise which we are addressing through our diversity and inclusion plan.

People performance

We are building on last year's success to reshape our people performance processes by designing a new way to measure performance which will move the focus of performance reviews away from end of year pay. Working closely with our Behavioural Science team, the focus will shift notably to development, while still identifying high and poor performers so that we can target intervention where it's needed. We launched a toolkit in April 2018 to support a team-based approach to managing performance.

Capability

Since 2014-15, our HR team has worked closely with the Heads of Profession in areas such as commercial, digital and finance, to assess our capability annually and develop a capability plan to make sure we have the right people with the right skills in place. The 2017-18 People Capability Review will provide insight into what capabilities and skills we are likely to need over the next 5 years and help us to take an integrated approach to workforce planning, underpinned by job families and professions.

Across the department we promote career pathways and related learning, underpinned by quality career conversations to support individual growth. We continue to move away from traditional classroom and e-learning, in favour of using a blend of 70% on the job, 20% interaction with others and 10% formal learning. We are currently piloting a blended professional learning journey for colleagues in Operational Delivery.

Talent

We value the diverse talent and capability of our people, and recognise the benefits of drawing from a wide population of people, irrespective of their background. We are committed to providing all of our people with the opportunity to continue to learn and grow to their full potential, by using targeted interventions where necessary, and we recognise this will help us to have a more diverse, skilled pool of people available to undertake our varied job roles.

We continue to be one of the largest contributors to the employment of apprentices in the civil service. In 2017-18 nearly 1,400 people in our department enrolled onto an apprenticeship. In 2018-19 we will provide a much broader range of apprenticeships available for our employees and new recruits, thereby providing even more opportunities for our employees.

We are building on the good work we have done on Movement to Work. Movement to Work is a scheme that helps young people aged 18 to 24 years who are not in education, employment or training to move closer to employment by providing quality work experience and learning opportunities. Since the Movement to Work programme started, the civil service has delivered 18,627 work experience placements and we have delivered 85% of these placements.

We have made good progress during the year managing our talented people with more gaining places on Civil Service talent schemes. In 2018-19 we plan to focus on building on the work we have done to strengthen the talent pipeline, particularly at Senior Civil Servant level.

Colleague health, safety and wellbeing

The health, safety and wellbeing of our people matters to us, and we recognise the vital importance of maintaining a healthy, safe, resilient, engaged and motivated workforce. We demonstrate this through a range of activities and services. In 2017 we launched our new ‘Working Safely’ strategy which is based on 3 key principles: promote, prevent, and protect and our ‘Working Well Together’ wellbeing strategy based on clear organisational and employee commitments to enable employee health and wellbeing to flourish in the Department for Work and Pensions.

Our achievements were once again recognised by the Royal Society for the Prevention of Accidents (RoSPA). This year we were ‘Commended’ in their Industry Sector Award which means the DWP has reached the Gold Medal standard for its safety management systems for the ninth consecutive year.

DWP also received the prestigious REBA Employee Wellbeing Award for Mental Wellbeing.

We have continued to hold our Disability Confident Leader status which demonstrates our commitment to attracting, recruiting and retaining disabled people, and supporting them to achieve their potential.

We recognise the costs associated with high levels of employee sickness absence. Our approach to managing sickness absence is supportive and work-focused. We provide all colleagues with a wide range of support services including Occupational Health, Employee Assistance, Physiotherapy and other bespoke wellness services, in addition to workplace adjustments. Following a comprehensive review of our provisions we have a detailed set of recommendations and plans to implement including action to increase line manager's confidence, improvements to the workplace adjustment passport and further enhanced digital accessibility solutions.

We aim to minimise absences through absence prevention, while supporting employees who are absent to return to work. Our average number of working days lost (AWDL) due to sickness is 6.6 as at February 2018.

Whilst our absence data remains an important metric, it only tells us about employees who have taken time off work through ill-health, and not about colleagues in work or their wellbeing. Therefore this year we pioneered new ways of measuring wellbeing to ensure our actions are evidence based. These metrics are based on a range of workplace factors – or drivers – which recent evidence tells us influence our wellbeing at work. These include – Health (physical; mental), Security (working conditions; safety), Environment (physical; cultural), Relationships (managers; others) and Purpose (engagement; job quality).

In January 2018 we launched our first ever Wellness Survey with questions grouped around the above 5 drivers. Over 35% of our employees responded. The findings are enabling us to be transparent about the impact of our initiatives and support services and helping us identify areas where we are doing well and where we may need to take further action.

We are now turning our survey results into action through a series of recommendations endorsed by the Department for Work and Pensions executive team. The results are enabling us to further drive culture change and accountability for workplace wellbeing, and have given us a baseline score to improve year-on-year.

Trade union activities and facility time

We value the contributions trade unions can make to our department. DWP engages with the three main civil service unions: PCS, FDA and Prospect. Some time spent engaging in union activity is paid for by the department. In the year April 2017 to March 2018, union officials spent 77,189 hours on union activity, which comes to 0.03% of the department's overall pay bill. Further details can be found in the staff report on page 138.

Technology

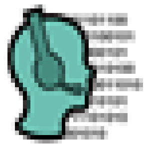
Digital transformation is crucial to helping our department meet policy outcomes, improving experience for our service users, and making our department more effective and efficient.

This year we had 4 key goals to support our digital transformation:

Designing, delivering and evolving products and services which deliver policy intent and meet user needs.

We supported further rollout of the Universal Credit service and continue to improve customer service and service delivery through fortnightly updates. We know that 99% of new claims are made online, and we have recently made improvements to the service, for example, a new landlord portal which speeds up transactions. Other major advances include:

- Check your State Pension digital service being used to view 7.5 million forecasts with 91% digital take-up and 89% user satisfaction
- Scaling up the Get your State Pension digital service, and replacing State Pension online, with 65% faster application times and 97% user satisfaction



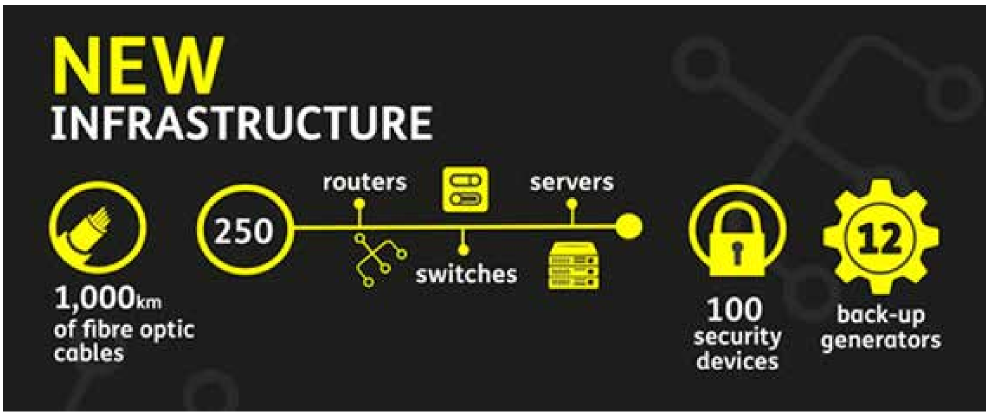
We completed the transition to Next Generation Contact Centre in December. This improves the experience for both colleagues and people using our service through better call routing and access to real time information on voice, email, web chat and social media. It also saves around £12 million each year. Our Next Generation Contact Centre won the gold award for 'Best Innovation in Business Transformation' at the European Contact Centre and Customer Service Awards.

We have developed cutting-edge artificial intelligence to crack down on organised criminal gangs committing large-scale benefit fraud. We carried out trials using algorithms that can identify different types of organised attacks on the welfare system. The algorithms reveal fake identity cloning techniques that are commonly used by fraudsters which are only detectable by intelligent computer programmes capable of searching for anomalies in billions of items of data. Artificial intelligence is enhancing our efforts to tackle benefit fraud.

Maximising operational performance and eliminating service downtime

We have one of the biggest and most complex IT systems in Europe. With some of our systems over 20 years old, periodic volatility in service performance is inevitable given the mix and age of systems and the pace of over 9,500 upgrades this year.

Every week we maintain, upgrade or replace hundreds of parts of our IT estate. For a large department with hundreds of complex digital products the way we manage our infrastructure is a big deal. It can determine how quickly we can make upgrades, how long it takes to load digital products and how secure our services are.



During this year our digital and operational teams have worked together to move over 100 digital products[15] to new hosting arrangements. This means we can improve performance and security and make substantial savings every year. Getting there was not easy. Upgrading our infrastructure is complicated work as some of our products are decades old but it's these large-scale changes that have

15 Digital products include online, telephony, systems, technologies, data and services that we design, build and buy.

the potential to save millions of pounds and transform the colleague and service user experience of our services.

We can now build and test new services in hours instead of months and we have seen sustained long-term improvements to service availability for the third consecutive year, up from 99.4% in 2016-17 to 99.6% in 2017-18.

Securing the department, and protecting people, information and physical assets

We bolstered our internal and external intelligence this year to defend the department's infrastructure and information from ever-evolving and complex threats. These include cyber-attacks like the ones suffered by several banks, retailers and other government departments this year. We further improved protective monitoring across our networks and systems by building capability through our Security Operations Centre, with all decisions driven and prioritised by risk.

To prepare for a security breach, a series of exercises and rehearsals have defined clear response plans across the department. We are meeting security compliance and regulatory obligations and from May 2018 the department has been working to ensure compliance with the General Data Protection Regulation (GDPR). Our successful security e-learning has been updated to build colleague awareness of the GDPR that came into force in May 2018 and was completed by 99% of colleagues in the last year.

Building capability to take control of our digital future and reduce supplier overheads

We continued to strengthen our internal digital capability in 2017-18, although competition for top-class talent in the external market remains fierce. To nurture internal capability, we created Communities of Practice: virtually all of our digital colleagues are members of one of 9 communities, allowing us to make better use of existing skill sets and to further develop specialist expertise.

Commercial contracting

We continue to scrutinise and manage our commercial contracts to ensure we are getting the best possible service at the best possible price.

In 2017-18 we delivered total savings of around £315.2 million (£191.3 million cash savings and £124.0 million efficiency savings).[16] The following sections show where some of the savings have come from.

Commercial digital

In 2017-18 we replaced our existing large, long-term, legacy technology service contracts, including the complete exit of our previous hosting arrangement, with smaller and more flexible contracting models. We have also made positive and significant progress with contracting for the replacement of the department's virtual machine environment.

This has supported delivery of our digital goals, particularly by enhancing the performance, stability and security of our infrastructure. Additionally, we have delivered more flexible contracts that mitigate risks and secure continuity of supply which helps keep the department safe from external threats, as well as enabling the delivery of digital products and services.

16 Numbers do not sum due to rounding.

Value for money has been driven in 2017-18 through the delivery of further cash savings of £62.9 million, helping the department to remain within its financial settlement. In addition, our Commercial Digital team have also contributed to incremental efficiencies, e.g. cost avoidance, of £39.6 million.

In line with government strategy, we are also working more closely with our suppliers to build trusted relationships enabling closer working, and seek joint opportunities for savings.

Estates

The People and Locations programme has been working to deliver a flexible estate for the Department for Work and Pensions that will be more efficient and better suited to our requirements now and in the future. We no longer have under-used space, making the future estate more efficient and negotiated new lease terms to make it more flexible. This means we can continue to deliver our services and people can access the support they need.

We have merged a number of sites into others nearby or into combined estate with local partners throughout 2017-18. We had 905 offices at the start of April 2017, which we reduced to 795 at the end March 2018 by moving over 13,000 people to different offices. These changes both offer significant savings in estate running costs but also ensure we offer a better, more joined up service to people. 2017-18 was a transitional year, during which we have invested in both rationalisation and improvement of our sites. We expect this to deliver cash savings in 2018-19 of £113 million.

Combined with the implementation of better designed offices, and changes to the way we work within those offices, the new Department for Work and Pension estate enables wider improvements in our efficiency and effectiveness.

The changes have been managed carefully, considering the impacts on both the people who use our services and our colleagues. Throughout 2017-18 we had a number of conversations with colleagues affected by the changes, supporting them in making decisions around relocation. This work has also been successful in reducing the number of people for whom a move was not reasonable and we have supported these colleagues as they leave the department as a result.

These changes have also allowed the introduction of new, more versatile and future-proofed offices into our estate. With the opening of a new corporate hub in Manchester and a new operational hub in Glasgow, we are ensuring both a modern and digitally enabled estate and greater links and alignment with other government departments. The changes will continue throughout 2018-19 as we finish rearranging who works where and begin to get accustomed to the new way we manage our facilities. This year will demonstrate the change in the way we review how well our estate meets our need, moving from a periodic to a more ongoing, continuous review.

The People and Locations programme has also executed a plan for exiting and replacing the 20 year contract under which the ownership and management of DWP's estate had been transferred to Telereal Trillium. The expiry of our contract with Telereal Trillium on 31 March 2018 provided us with an opportunity to review our estates requirements and reduce our estates costs.

The new structure for our estates provision took effect from 1 April 2018 and is expected to save £1.7 billion over ten years. Rather than having one long-term contractual relationship, the new approach is more flexible with discrete suppliers with whom DWP contract directly to provide the necessary services including: facilities management, security services, projects, landlord and lease management, and furniture, fittings and equipment. The programme's aim has been to source the best specialist suppliers who are incentivised to help DWP take advantage of new technology and industry best practice, and make sites safer and more attractive places to work and visit.

Key to the new approach is the appointment of an independent 'integrator', who will manage the performance of the supply chain on DWP's behalf. The independence of the 'integrator' and direct contractual relationships with each supplier will ensure transparency in both cost and performance across all areas of delivery.

Contracted employment support

Savings across all employment programmes for 2017-18 are £95.1 million (£36.2 million cash; £58.9 million efficiency). These savings arise from both procurement and contract management savings as our commercial team continue to drive contracts and value for money.

A number of provisions ceased to receive referrals during the year and contracts have entered the exit management phase alongside a number of new provisions being put in place, including the Work and Health programme.

Work and Health programme

The department has let contracts to deliver the Work and Health programme in England and Wales using the Employment and Health Related Services 'Umbrella Agreement'; for Scotland contracted employment support was devolved to the Scottish Government. The department's Work and Health programme five year contracts – with a total value of £400 million – went live between November 2017 and January 2018. In addition to this, over £100 million of funding has also been devolved to local government partners in London and Greater Manchester who have developed, procured and are delivering local versions of the Work and Health programme.

Health assessments

This year we declared savings of £53.5 million (£44 million cash and £9.5 million efficiency) within the health category. Our focus was to manage actively our existing contracts in order to get the best out of them, and engage with the market to provide a broader range of delivery options.

We have continued to focus on managing the Personal Independence Payment (PIP) contracts. This has included embedding better service performance measures agreed with both assessment providers during the Contract Review in 2016, and also working with suppliers to improve quality and consistency whilst containing cost. We accepted a broad range of recommendations from the second statutory review of the PIP assessment process undertaken by Paul Gray CB. We are working with PIP assessment providers to implement these includng the introduction of 'Function First' to ensure that assessments focus on gathering sufficient functional evidence and more detailed work on recording of assessments (which was a key focus of Paul Gray's report and the Work and Pensions Select Committee). The existing PIP contracts expire in July 2019 and work is underway to secure delivery thereafter.

The contract for the delivery of Health and Disability Assessment Services, which includes work capability assessments, commenced in March 2015. This year, service delivery has continued to improve across all areas. We have agreed terms to extend the existing contract until February 2020 which include financial savings to the department, new service levels to drive efficiency and increased targets in areas which are important to us such as quality and satisfaction of people who have used these services.

We are currently discussing the approach for future health assessments and health assessment contracts with Cabinet Office and the Treasury and are finalising an overarching commercial strategy for what this will look like.

Communications and publicity

Our Communications Directorate is focussed on supporting the delivery of the department's priorities: offering support to those who can work, help for those who could work and care for those who can't work. Our communications will also contribute to the successful delivery of major policy areas from Universal Credit to automatic enrolment, as well as supporting effective operational delivery. We communicate through a range of marketing, press and PR, digital, internal and partnership activities that are insight-driven and robustly evaluated. We engage in publicity and advertising to draw public attention to important campaigns. For example, in 2017-18 we ran a number of publicity campaigns, including 'Know your pension' and the launch of the 'Understanding Universal Credit' website.

We have not entered into any sponsorship arrangements in 2017-18.

Fraud, error and debt

In 2017-18 we paid out £177.5 billion[17] in benefits and pensions to millions of UK citizens. We continue to work to ensure the accuracy of each claimant's payments against their entitlement. Errors do happen in a system of this scale and complexity. Some individuals try to cheat the system and organised groups seek to exploit it.

The overall level of gross overpayments (2.0% in 2016-17) now stands at 2.1% or £3.8 billion, of total benefit expenditure. This means the net loss[18] due to fraud and error, which we calculate by subtracting the benefit overpayments recovered in year, is now 1.5%, or £2.7 billion. We remain determined to tackle it.

We estimate the gross loss on State Pension to be 0.1% against spend of £93.9 billion. State Pension has relatively simple conditions of entitlement so fraud and error is low. The gross overpayment level for the remaining £83.6 billion spent on benefits stands at 4.4%.

Underpayments totalled 1.0% or £1.7 billion of total benefit expenditure.

17 Benefit expenditure of £177.5 billion represents the latest available forecast expenditure for 2017-18 at the time of the preliminary estimate published in May 2018.
18 This method deducts money recovered this year, regardless of when the overpayment occurred, from the money estimated to have been overpaid this year. Money recovered this year includes in-year figures for directly administered benefits plus Housing Benefit recovery as detailed in the Housing Benefit and Debt Recovery statistics. This figure is unaudited. Further information can be found on www.gov.uk by searching for Fraud and Error in the Benefit System 2017-18.

The Comptroller and Auditor General has qualified his regularity opinion on our accounts due to the material level of fraud and error in benefit expenditure since 1988-89. The Permanent Secretary has retained monetary value of fraud and error as a significant control issue. More detail is available on page 117.

Tackling fraud and error in a changing environment

In 2017, the Counter Fraud and Compliance Directorate (CFCD) was set up to provide accountability for tackling all fraud and error, including losses from Housing Benefit (HB) and Universal Credit (UC), under the responsibility of a single director. The Directorate was formed as an integral part of DWP Operations to create a more 'joined up' approach to fraud and error. This is enabling us to optimise how we deploy our skilled people to protect benefits, has helped us establish fraud and error ambassadors within DWP sites, and facilitated a more integrated approach to payment accuracy through new quality measures. As the Directorate matures it will enable us to improve the effectiveness and targeting of our approaches.

Housing Benefit (HB) continues to be a challenging area for us, accounting for nearly £1.5 billion of the £3.8 billion of losses now reported. Our Right Benefit Initiative incentivised local authorities to process referrals about HB arising from real-time information on earnings and pensions. Most fraud and error arises from failure to report changes of circumstances, sometimes by mistake and sometimes as a deliberate attempt to defraud. We have increased the use of real-time earnings and pension data via our Verifying Earnings and Pensions (VEP) Project in order to provide alerts, (notifications that a change in income that could affect entitlement has happened), on Pension Credit. This enables the change to be taken into account close to the time when it happened, minimising the accumulation of under or over-payments. In October 2017, we announced we would increase the use of real-time earnings and pensions alerts across local authorities. Alerts can improve the accuracy of HB payments, provide a better experience for claimants and deliver efficiencies in some of our biggest loss areas.

Our Analysis and Intelligence Hub uses new analytical tools to help identify, profile, monitor and escalate cases for investigation and is increasingly building a common knowledge-base of claimant behaviour, which supports ongoing risk profiling and helps manage risks of UC expansion. It is also working with our Cyber Resilience Centre to help identify instances of web-enabled fraud.

We continue to trial new external datasets to risk assess the accuracy of UC claims and reduce what claimants and agents have to prove when they make a claim. A two year contract with an external credit reference agency introduced new data and is identifying potential 'living together' fraud. Work with other data providers is exploring how we can identify undisclosed capital.

There will always be those claimants who are intent on committing fraud so we are transforming our business using new digital capability to send fraud referrals straight to the right area, resulting in faster interventions. We remain committed to the appropriate use of available penalties, including Administrative Penalties of up to £5,000, or prosecution through the courts.

We continue to strengthen our partnership between managers and our Quality Assurance Teams, with root cause analysis helping us address official error. A pilot has looked at how we can incorporate claimant fraud and error checks into our quality assurance work and we will increasingly use this type of check to provide assurance that our prevention measures are working.

We set an underpayments target for 2017-18 to be no more than 0.9% of expenditure underpaid. Whilst the overall, recently published preliminary figure is slightly above our target, final results will be published towards the end of 2018 - Employment Support Allowance decreased. We have reviewed the main underpayment errors across benefits in response to previous year's statistics and verified our position by reference to our most recent publication. We have developed an approach to tackling the errors, which has involved adopting training and guidance, working to clear backlogs related to underpayments on premiums, and reviewing compliance at key process points.

This includes checking a specific group of around 3% of the current ESA caseload who transferred to contributory ESA between 2011 and 2014 and who may have had an unidentified entitlement to additional premiums. The department expects to complete the review and correct these cases during the course of 2018-19. We remain committed to maintaining a downwards pressure on underpayments.

A significant cause of underpayments is errors by claimants. We recognise the role of our processes in this and continue to work to improve our customer journeys and make it easier for claimants to get things right. We are also continuing to use communications to promote understanding of claimant responsibility to inform us of changes that could result in their entitlement increasing and making it clear how to report changes. We are improving our content on gov.uk, reviewing the content of our letters and continuing to promote our services in many locations, including GP surgeries and jobcentres.

Recovering Debt

We continue to use all the methods available to us, including Direct Earnings Attachments, to recover benefit debt. Along with local authorities, we recovered an estimated £1.1 billion in overpaid benefit last year; this is the same as in 2016-17.

Our Debt Management function also recovers benefit from insurance companies and act as compensators on behalf of the NHS where ambulance or hospital costs have been incurred in connection with an accident.

DWP recoveries (excluding Housing Benefit recovered by local authorities), compensation recovery and Social Fund loan recovery totalled £1.5 billion recovered in 2017-18 by our debt management function; an increase of £146 million on last year.

We are improving the IT we use for debt management with the aim of automating processes where we can and using analytics to prioritise our debt stock. We are introducing ways to allow debtors to view and 'self-serve' their debt account on-line. As announced in February 2017, we will also begin recovery of an additional £850 million of HM Revenue and Custom Tax Credit debt (from people whose Tax Credits claim has ended but who have not arranged to repay their debt and are in work) commencing October 2018. This debt will transfer to the Department for Work and Pensions.

In October 2017 we announced we would provide local authorities with access to employer, self-employed and private pension data, along with fresh contact details. This enables local authorities to trace and get back in touch with debtors to set up voluntary repayment agreements or Direct Earnings Attachments.

Our approach for the future

Our vision is that the Department for Work and Pensions delivers services that will minimise the flow of fraud and error into our systems. The vision states that where fraud and error does occur, we will identify it early, taking targeted and cost effective action and efficiently recover any outstanding debt.

The benefit landscape is complex and whilst there is no perfect solution for eradicating fraud and error, we have built a good understanding of key areas of loss by breaking down our published Fraud and Error in the Benefit System estimates into principle causes, which enables us to refresh our approach at benefit level and understand specific trends.

By the end of 2022, we will be responsible for around 4 million more claimants migrated from HM Revenue and Customs Tax Credits onto UC. We expect that this change to the make-up of our claimant population will result in an increase in overpayment levels for the department over the next 5 years, but overall, fraud and error across welfare will fall. In addition, we will take ownership of approximately £5.9 billion in Tax Credit debt from HM Revenue and Customs as part of UC migration, whilst UC advances will also add to our debt stock, such that our debt balance is currently forecast to reach £12.8 billion by 2021-22.

In preparation for this change, we will be increasing our emphasis on preventative measures to minimise the impact of overpayments on both claimants and the department alike.

The effective use of data is at the heart of our approach and we have already taken the first step in building a risk and intelligence service, bringing all our data and analytical capability under a single workplan. This will improve our capability to prioritise effort based on intelligence and understanding of behaviour and support tailored responses, which could include a combination of nudges, additional checks and, where appropriate, use of our investigation teams. The data we can access on employment and pensions has transformed the way we deal with risk of benefits being awarded on incorrect earnings information. We need to expand this approach to address other areas of loss, such as un-declared capital and unreported changes in household composition. We can do much more with the data that is available to us now but we have also begun a review of our information powers to identify any opportunities to strengthen them whilst ensuring that they remain proportionate.

In December 2017 we launched our operational control centre to consolidate all our investigation, compliance and intervention work including testing of new fraud and error initiatives. This is helping us link resource to overall departmental objectives and monitor delivery of these new projects. We are evaluating the cost effectiveness of different approaches and prioritise resources for maximum gain.

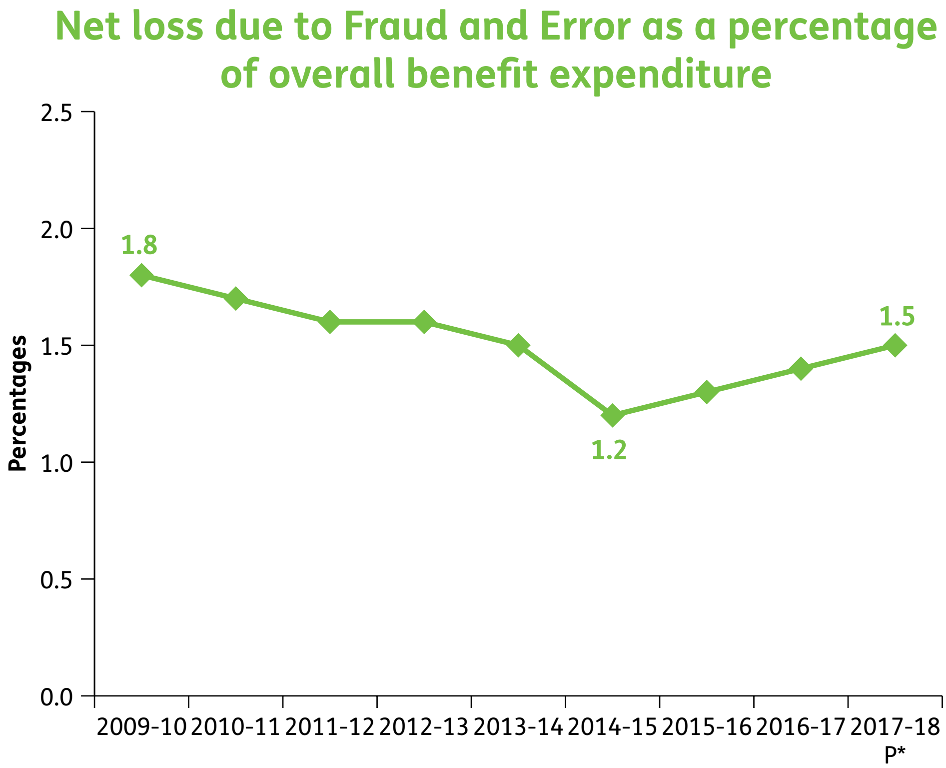
Helping claimants to take ownership of their claims will be key, not least because around 85% of claimant fraud and error occurs during the life of a claim through changes in client's circumstances. In 2018, our behavioural science team will conduct research into claimant behaviour to inform our communications. We will look again at the language we use and how techniques such as 'nudges' can achieve the desired outcomes. We want to make it easier for claimants to report changes and will consider what tools we can provide to make this happen. The continued roll-out and managed migration of claimants onto UC will be a key priority, including ensuring transitional protection payments are correct. A range of activity including checking existing cases will be considered to ensure that any Transitional Protection calculations are based on the correct data.

Our performance

We are measuring our progress through the following headline indicator:

Headline indicator 11[19]: Net loss due to fraud and error as a percentage of overall benefit expenditure

In 2017-18 the preliminary estimated level of net loss due to fraud and error as a percentage of overall benefit expenditure arising from fraud and error, after offsetting estimated overpaid benefit recovered, was 1.5%. This is 0.1 percentage points higher than the 1.4% in 2016-17.



P denotes provisional estimates, final estimates to be published in November 2018.*

This indicator measures the estimated value of overpayments as a percentage of benefit expenditure after overpaid benefit recovered has been offset. Departmental recoveries of Social Fund loans and compensation recoveries are not included in the offsetting.

19 This method deducts money recovered this year, regardless of when the overpayment occurred, from the money estimated to have been overpaid this year. Money recovered this year includes in-year figures for directly administered benefits plus Housing Benefit recovery as detailed in the Housing Benefit and Debt Recovery statistics. This figure is unaudited. Further information can be found on www.gov.uk by searching for Fraud and Error in the Benefit System 2017-18.

In-year recoveries may not relate to when the overpayment occurred. The fraud and error estimates are based on a sample of cases and so are subject to sampling error. A reduction denotes an improvement for this indicator. More detailed information on this indicator can be found in the DWP Technical Annexes on www.gov.uk

This indicator does not measure estimates of gross overpayments as a percentage of benefit expenditure which are included in Note 19 of the financial statements. The estimates are published on www.gov.uk

◆Customer service

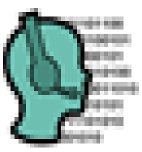
Every day we help people to find work and get the help they need so customer service is very important to us. We strive to provide the best possible service that meets the needs of people using our services and delivers the best possible outcomes for them.

Throughout 2017-18 we have focused on delivering a seamless, high quality service. We have expanded our online and service centre engagement channels across a number of Services including Universal Credit (UC), Jobseeker's Allowance, Carer's Allowance, Retirement Provision and Child Maintenance. We have introduced an on-line application for Social Fund Budgeting Loans, improving access opportunities.

We established the organisational design for UC Operations by fully aligning our jobcentres and service centres. This means people get consistent support and customer service the whole time they are in touch with the department, and increases efficiency.

We have ensured telephone calls to benefit lines are free. We introduced new Freephone numbers for UC from 29 November 2017, and by the end of December 2017 had extended Freephone numbers to all other benefits and services. Although UC is primarily an online service we continue to offer a telephone option.

To improve our telephony service, we successfully completed transformation to a Next Generation Contact Centre platform, providing more stability and features designed to enhance the experiences of people contacting us and the service we offer.



During 2017-18 the Child Maintenance Service drive to continually improve customer service has focused on ensuring that we take action as quickly and accurately as possible to increase outcomes for people. We use the full range of enforcement powers, to address non-payment of child maintenance.

We are making plans to start extending our opening hours to 8pm during 2018. This means we will begin moving towards standard hours across Jobcentre Plus of 8am to 8pm, Monday to Friday. There are no plans to amend our Saturday service. This will be an important change for our employees and our customers as we continue to modernise and improve the services we provide.

These, and other activities, provide the context for the continued increase in the overall satisfaction expressed in our claimant survey report.

Customer feedback

We have a well-established complaints process through which people can complain about our service. We publish details about how to complain in leaflets and online. Our online service also provides a complaint form for UC and Jobseeker's Allowance claimants.

In 2017-18 we received 49,974 complaints (843 less than 2016-17 when we received 50,817 complaints). This reduction is despite a complaints campaign about increases in State Pension Age.

The area most impacted by complaints in 2017-18 is State Pensions. We saw an increase in the number of complaints made from women born in the 1950s who are complaining about the manner in which the changes to their State Pension age are being implemented. Many of these complaints are the result of a campaign about the notice given of increases to State Pension age, the speed of that increase and the time available to plan for it. We saw the biggest increase in such complaints earlier in the year but the numbers have been going back down again since January 2018.

In UC we saw a steady month on month increase in complaint volumes which was not unexpected as more people move onto the service. However, although complaint numbers have increased, the percentage of complaints when compared to the overall number of people receiving UC has decreased. We believe this is because we have learned from claimants' early experiences in UC and have acted to address their concerns.

The rollout of UC and the gradual cessation of Tax Credits, along with our agreement to collect Tax Credit debts on behalf of HM Revenue and Customs, has led to some complaints spanning both departments. We continue to work with HM Revenue and Customs to provide people with a seamless service, resulting in a single response covering both departments. As yet, no cross-cutting complaints have escalated to the Independent Case Examiner (DWP) or the Adjudicator (HM Revenue and Customs), which indicates that we are continuing to resolve complaints in the early stages.

We welcome feedback from people and use this to improve our services. This year for instance, we have made the following improvements as a direct result of claimant feedback:

- In our Debt Management service, the most common complaints are about old debts, recovery via an attachment to earnings and recovery from a claimant's estate. We reviewed our processes regarding recovery from estates and have been able to reduce our processing times and improve the wording in notification letters. As a result, we have seen a month on month decrease in these complaints since September 2017
- In order to provide a better customer service and enhance our complaint feedback loops into the business, we have changed our complaints organisational structure. We now work in product line hubs: UC in Sheffield; Personal Independence Payments /Disability benefits /Pensions in Blackpool; and all Child Maintenance schemes in Washington. Our product hubs deal with the end to end process, which includes the cases that are escalated to the Independent Case Examiner. This has proved beneficial for complainants as the additional knowledge gained from using the product hub approach has made it easier to identify ways to resolve or settle their complaints
- In response to feedback from the ICE annual report, we changed the process for investigating complaints about staff to ensure the rigour of investigations. The changes ensured that complaints are assigned to an appointed investigation officer, who has no link to the member of staff. Additionally, we now ensure there are designated accountable officers who oversee the investigation. The reformed process has now been fully rolled out across the department and a training package has been disseminated to support operational colleagues and complaint resolution teams

Independent Case Examiner

If people who have made a complaint to us are not happy with our response, they can ask the Independent Case Examiner (ICE) to investigate their complaint. This leads to fewer complaints being upheld by the Parliamentary and Health Service Ombudsman (PHSO) (see below) as they have already been examined by the ICE, as the PHSO acknowledged in its report in December 2017.

In 2017-18 the ICE received 5,342 DWP complaints and cleared 779 of them. The rise in the number of complaints received by ICE was due to the campaign against the State Pension age increase. The ICE office set up a team dedicated to investigating these complaints in October 2017 and is currently working through them. ICE has agreed to prioritise the investigation of any complaints that are currently awaiting investigation, if asked to do so by the Parliamentary Ombudsman's Office.

Complaints made to the ICE	2015-16	2016-17	2017-18
complaints received by ICE	2,324	2,509	5,342
complaints cleared by ICE	715	781	779

Complaints cleared by the ICE	2017-18
withdrawn by complainant	24
agreement brokered by the ICE between relevant parties	152
fully or partially upheld	393
not upheld	210
total	**779**

Parliamentary and Health Services Ombudsman (PHSO)

The Parliamentary Ombudsman's office has not yet released the data for the last financial year. The table below shows the most recently available complaints data.

Complaints investigated by the Parliamentary Ombudsman	2014-15	2015-16	2016-17
no of complaints investigated	201	196	131
% of complaints upheld	22%	39%	29%

Our upheld rate increased in 2015-16 and 2016-17 as the PHSO investigated a batch of cases which had not exhausted our complaints process. As a result, they found there was more we could have done, and upheld the majority of the complaints about Access to Work. Whilst our upheld rate (29%) still compares favourably to the overall rate across all Parliamentary departments (34%), if we exclude the premature cases our upheld rate reduces to just 18%. The upheld rate for cases that had previously been considered by the ICE is particularly favourable at 9.8%.

Complaints to the Parliamentary Ombudsman in 2016-17

Departmental business	Complaints accepted for investigation	Complaints resolved through intervention	Complaints reported on	Complaints fully or partially upheld	Complaints not upheld	Complaints discontinued	Recommendations complied with (some complaints have more than one recommendation)	Recommendations not complied with
Jobcentre Plus	15	0	40	22	11	7	57	0
Independent Case Examiner	62	0	51	5	37	9	8	0
Child Maintenance 2012	0	0	0	0	0	0	0	0
Child Support Agency (legacy)	49	0	23	6	12	5	11	0
Pension, Disability and Carers Service	2	0	4	1	3	0	5	0
Debt Management	0	0	0	0	0	0	0	0
DWP (corporate)	10	0	9	4	2	3	1	0
Pension Protection Fund	0	0	0	0	0	0	0	0
Pensions Regulator	0	0	0	0	0	0	0	0
Atos Healthcare	0	0	0	0	0	0	0	0
Health & Safety Executive	4	0	4	0	3	1	0	0
Total	**142**	**0**	**131**	**38**	**68**	**25**	**82**	**0**

Special payments

We make special payments to people who have incurred additional costs, losses or other effects due to our maladministration. In 2017-18 we authorised 7,079 ex-gratia payments totalling £0.86 million.

These payments exclude financial redress paid for loss of statutory entitlement (LOSE). The total cost of LOSE in 2017-18 was £0.453 million. These figures also exclude any special exercises to address cases where current legislation does not allow payments which were intended by Parliament or ministers. This money is excluded as it is not an extra cost arising from maladministration but payment that should have been made anyway.

Ministerial correspondence

We received 9,910 letters from MPs and 3,868 letters from members of the public last year. We responded to 88.8% of MP's letters within 20 working days.

The most common issues raised were in relation to Personal Independence Payment, Universal Credit and the State Pension.

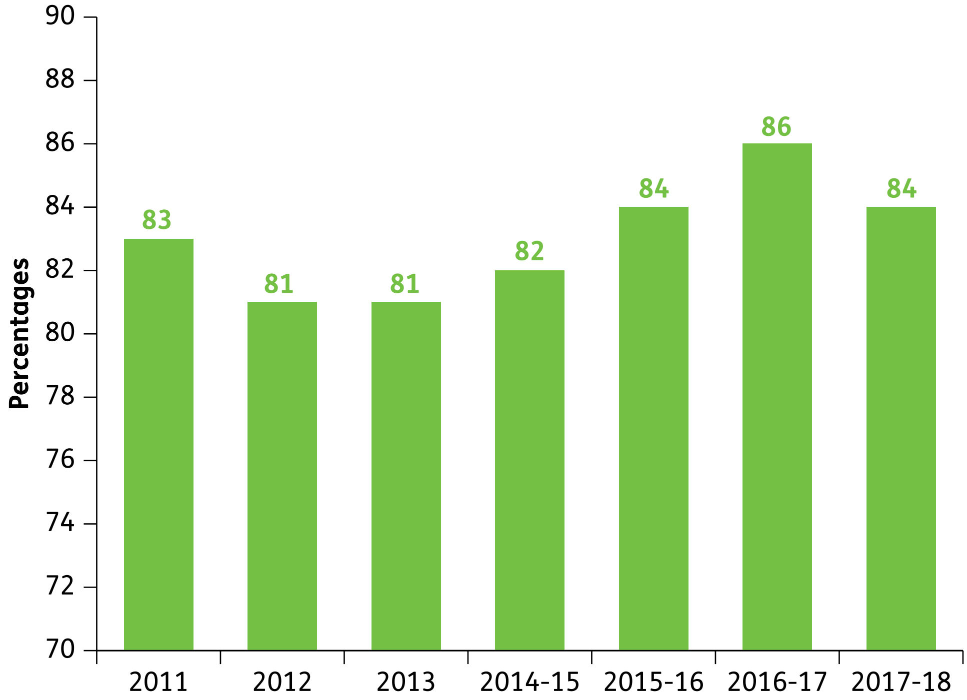
Our performance

We are measuring our progress through the following 2 headline indicators:

Headline indicator 12: customer and claimant satisfaction with DWP services

Latest data shows we achieved an overall customer and claimant satisfaction rating of 84% in 2017-18, a reduction of 2 percentage points on last year's score.

Customer and claimant satisfaction of DWP services



Source: Claimant Service and Experience conducted by a third-party research organisation and analysed by DWP (2011, 2012, 2013, 2014-15, 2015-16, 2016-17, 2017-18).

This indicator looks at Jobseeker's Allowance, Employment and Support Allowance, Income Support, Disability Living Allowance, Attendance Allowance, Carer's Allowance, State Pension, Pension Credit, Personal Independence Payment and Universal Credit claimants. It measures the percentage of claimants who are either fairly or very satisfied with the service they received. As methodology and sample has changed over the years only the scores between 2014-15 and 2017-18 are directly comparable. The 2% difference between 2016-17 and 2017-18 scores is a statistically significant change.

The 2017-18 figure is based on our initial analysis of the data, a full publication will be provided later in the year. Please see the 2016-17 publication for further information on background methodology.

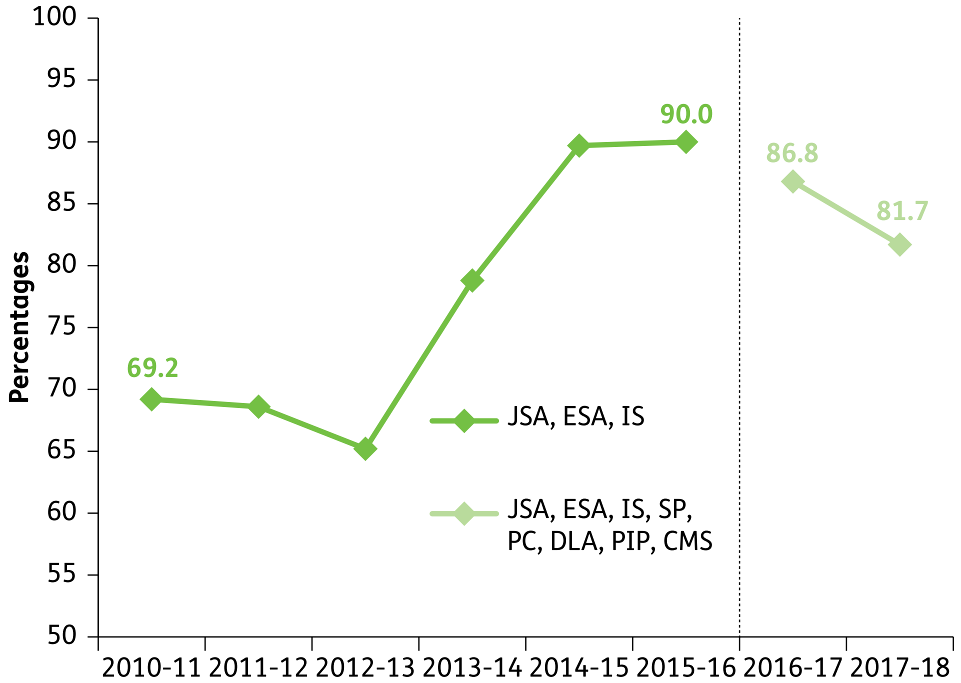
Headline indicator 13: new claims processed within planned timescales

In 2017-18, 81.7% of new claims for Jobseeker's Allowance (JSA), Employment and Support Allowance (ESA), Income Support (IS), State Pension, Pension Credit, Disability Living Allowance (DLA) for children, Personal Independence Payment (PIP) and statutory child maintenance were processed in planned timescales. This is a reduction from 86.8% in 2016-17 and due to some periods during the year where there was a drop in processing performance in Personal Independence Payments, State Pension and Pension Credit. Universal Credit is not included in this data set.

Personal Independence Payment new claims has shown improvement with performance increasing and being sustained in the second half of the year.

Pension Reforms and peaks in customers claiming state pension have contributed to high volumes at three points during the year. State Pension customers can claim four months in advance of their State Pension Age and we work to prioritise and make awards based on the date a customer's pension is due. There is a plan in place to manage the distribution of invitations to claim alongside the new on line service (Get Your State Pension) to continue to smooth delivery. The Pension Credit plan focuses on improving consistency of delivery whilst exploring any digital opportunities to improve how we gather customer's information, and keep them updated about progress.

New claims processed within planned timescales



Data for years 2010-11 to 2015-16 is based on JSA, ESA and IS. Data from 2016-17 to 2017-18 includes new claims for JSA, ESA, IS, State Pension, Pension Credit, DLA for children, PIP and Child Maintenance. More information on this indicator can be found in the DWP technical annexes on www.gov.uk

Supporting cross-government commitments and requirements

Devolution

For our department, devolution means a significant change to the way welfare and employment support is to be delivered across Great Britain as a whole.

Scotland

The Scotland Act 2016 has fundamentally changed the way welfare and employment support is to be delivered, creating a new shared space between DWP and the Scottish Government. It devolved significant powers in relation to welfare benefits and elements of employment support to the Scottish Government – spend on existing Department for Work and Pensions benefits that are being transferred was worth £2.8 billion in Scotland in 2015-16.

Following Royal Assent of the Scotland Act in March 2016, powers were commenced that included the ability to make discretionary payments, top up reserved benefits, create new benefits and set up new employability programmes in certain circumstances[20]. The Act also devolved responsibility for disability and carer benefits[21] and support currently provided through the Social Fund[22]. In recognition of the significant scale of benefits being devolved it was agreed that the transfer of legislative and executive competence would be split. In May 2017, legislative competence was fully transferred to the Scottish Parliament for disability and carers benefits. This enabled the Scottish Government to introduce their Social Security (Scotland) Bill in June 2017. The Bill has been debated in the Scottish Parliament, receiving Royal Assent in June 2018. Executive competence remains with DWP until April 2020 unless the Scottish Government enact this sooner.

The DWP Scottish Devolution programme remains fully committed to supporting the transfer of devolved benefits and employment support provided for in the Scotland Act 2016.

Over the last 12 months we have made significant progress in supporting the Scottish Government, including:

- supporting the delivery of two transitional Scottish Government employment support programmes introduced in April 2017: Work First Scotland and Work Able Scotland
- agreeing a DWP referrals process to support the implementation of the main employment programme, Fair Start Scotland from April 2018
- supporting the delivery of UC choices for new claims, covering frequency of payment and housing costs direct to landlords introduced in October 2017

Our department will continue to be responsible for the delivery of the existing benefits which will be devolved, until the Scottish Government takes over executive competence by April 2020. The Scottish Government may want our department to continue to deliver some of the devolved benefits once they have taken over executive competence under ‘agency agreements’ until they are in a position to fully deliver all devolved benefits within their new ‘social security agency’.

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20 The Scottish Government can provide employment support to those with a disability and those at risk of long term unemployment and also to employers.
21 Personal Independence Payment, Attendance Allowance, Disability Living Allowance for Children, Carer’s Allowance, Severe Disablement Benefit and Industrial Injuries Benefit.
22 Sure Start Maternity Grant, Funeral Expenses Payments, Winter Fuel Payment and Cold Weather Payments.

Scottish Government will pay a Carer's Allowance Supplement in 2018 and executive competence will transfer for Carer's Allowance from that date. We have agreed our department will continue to deliver the existing Carer's Allowance to people living in Scotland on behalf of the Scottish Government under an agency agreement for a defined period from that date.

Wales

In respect of Wales, employment and welfare continue to remain reserved to the UK Parliament. However, in accordance with the provisions in the Wales Act 2017, we have started to prepare for the introduction of a Welsh Rate of Income Tax (WRIT) from 2019, working with our digital and operational excellence colleagues to ensure that our IT systems are able to take account of any new tax rate and products for colleagues and people using our services are updated as necessary.

Northern Ireland

In the absence of a Northern Ireland Executive, we have continued to legislate on behalf of Northern Ireland, delivering the regulations necessary to ensure that the Northern Ireland social security system continues to keep broad parity with the rest of the UK and supports UC rollout.

Devolution Capability and Engagement

In line with all UK Government departments, DWP has a Devolution Capability and Engagement Plan which was updated for 2017-18 to reflect the changing nature of DWP's engagement on devolved issues, particularly since the passage of the Scotland Act 2016. The plan also supports the Cabinet Office led work to improve devolution knowledge across Whitehall and its goal is to further develop policy and operational capability by:

- promoting proactive engagement with Devolved Administrations and stakeholders to support DWP and UK government priorities, including the secure transfer of welfare powers to Scotland
- increasing the knowledge of devolution settlements and what they mean for our work at DWP; and
- embedding a solid understanding of devolved issues and how we need to engage with Devolved Administrations

Key activities include providing tailored awareness sessions to help colleagues understand the devolution landscape and make devolution work. This also includes promoting the cross-government 'Devolution and You' campaign which includes a range of tools and training.

Over the last year, around 40 sessions have been delivered across the department to over 1,100 colleagues. Feedback indicates these sessions are building capability with 95% of respondents indicating they have a moderate to high knowledge of devolution after the session (compared with 54% before). Furthermore, 82% of respondents said they subsequently had a better understanding of the implications of devolution for their work.

Devolution deals

Last year we reported that we were helping a number of City Regions and Combined Authorities to develop innovative pilots to support the hardest to help in their areas. This work has continued throughout the year with the following areas: Liverpool City Region to introduce a "Households into Work" pilot; Tees Valley to deliver their "Routes to Work" pilot; West Midlands to introduce a locally community based pilot; Cambridge and Peterborough to test a new intervention that addresses specific local labour market and skills shortage in the Health and Care Sector; and a pilot to support career progression in West of England. The majority of pilots will begin delivery this financial year with West Midlands working towards early summer 2018 launch.

The Autumn Budget confirmed a second devolution Deal for West Midlands and a 'minded to' devolution deal with the North of Tyne authorities, subject to consent of local partners. DWP will continue to support the commitment of jointly developing an Employment Support Framework Agreement across the West Midlands and the North of Tyne to drive the better coordination of employment, skills and health services and increase the number of residents moving into work.

Exiting the EU

Since the referendum, we have been working closely with the Department for Exiting the EU to identify and assess the most critical issues which are likely to affect our department and its agencies following the UK's withdrawal from the EU.

Although the detail and scale of the impact will to some extent depend on the outcome of the negotiations, we are working closely across government to minimise associated risks. We have established internal governance and planning arrangements to ensure we are well prepared for a number of EU Exit scenarios.

Key areas for our department include:

- agreeing a future approach for migrants' access to benefits and arrangements for social security coordination with the EU
- amending occupational Health and Safety legislation to ensure it is operable in domestic law
- creating a legal framework for the continued regulation of chemicals post-exit
- considering the impact on the labour market and making the necessary arrangements for leaving the European Social Fund

Sustainable development

Sustainable development is central to the way we make policy, manage our estate and purchase goods and services. The work we do in this department is making a difference by contributing to social wellbeing, safeguarding the world around us and supporting the UK economy.

Our approach remains unchanged: to balance different and competing needs in everything we do against an awareness of the environmental, social and economic limitations we face as a society.

We are mindful of the effect climate change could have on our department and people using our services, and we work to ensure that climate change implications are considered in key policy decisions, where relevant. In 2016-17 we worked with the Department for Business, Energy and Industrial Strategy to assess our involvement in the UK Climate Change Risk Assessment, which was published in January 2017. In the past year we have continued to take steps mitigating climate risk, such as using flood risk assessments to inform business continuity plans.

Our sustainability report for 2017-18 includes more detail on the sustainability topics listed below. It will be published in late summer 2018 and will be available on www.gov.uk. Here is a summary of some of the activities we have undertaken in 2017-18:

Initiative	Activity in 2017-18 includes:
Mainstreaming sustainability	• continuing to incorporate life chances into our new contracts • assessing the social and environmental impact of our policies during the development process • delivering sustainability training during colleague induction sessions • maintaining a network of environmental champions across our sites • collaborating with key suppliers to refresh the department's Sustainable Development Strategy • maintaining a page on the DWP intranet featuring a number of sustainable development tools for use in policy development and delivery • integrating sustainable development impact assessments into all procurement exercises undertaken through our online procurement portal, considering environmental, social and economic development and mitigation options
Sustainable procurement	• procuring more sustainable and efficient products by improving our understanding of the supplier chain and complying with the revised government buying standards • working towards the central government target of 33% of our expenditure with providers going to small and medium-sized employers (SMEs) – we achieved 13.75% in 2016-17 which was a reduction from 17.36% in 2015-16. Figures for 2017-18 will be available in late July 2018 • working with the Crown Commercial Service, Department for Health, Ministry of Justice and NHS Digital our department led a SME 'Meet the Buyer' event in Leeds in November 2017 where we engaged with the SME community to help break down barriers for small business to contract with central government
Climate change adaptation	• using evaluation tools which contain questions about climate change • using flood risk assessments as a practical tool in business continuity planning
Rural proofing	• being flexible enough to meet the needs of rural communities, businesses and people. For example, the rural community of Millom only has one travel link to Barrow jobcentre. This puts claimants in Millom at a disadvantage in relation to accessing support to help them move towards employment. A case was made to deliver support from the Millom Network Centre which is the hub of the community. Since the support started there, 55 people have been referred to the support and 16 have started work.
Biodiversity	In addition to expanding activities reported in previous Annual reports and accounts we have undertaken several other projects to promote biodiversity. One example is the transformation of the fountain on our site at Warbreck House, Blackpool. The fountain fell into disrepair and was shut down. The area looked very depressing so working with our providers we decided to transform the fountain into a natural pond. This was done in 3 stages: • The pond was filled with water and various oxygenating pond plants. Breeze blocks were placed in the pond for the plants to grow in and to provide shelter for future fish stocks • Several different species of bugs from our site in Peel Park were introduced into the pond • In May 2017 we introduced fish into the pond. They are thriving and have grown from around 3 inches in length to around 10 inches in length We have created an area rich in biodiversity that requires no pump or filters, thereby saving energy. Nor are any chemicals required to keep it clean which is excellent for the environment and it is a much more aesthetically pleasing space for colleagues to enjoy and relax.
Life chances of disadvantaged people	• improving the life chances of the most disadvantaged people in our society by: • championing the Disability Confident agenda with suppliers during the creation of the umbrella agreement for Employment and Health related services and the Work and Health programme

Greening Government commitments

With responsibility for welfare, pensions and child maintenance policy, the remit of our department is primarily focused around supporting social and economic factors. We make a major contribution to the effectiveness and efficiency of the UK's social system, helping to assure indefinite social well-being across our communities. However we also actively manage our impact on the environment and are making good progress. Through our policies and processes we have reduced our paper usage, reduced energy and water consumption, improved our waste management through better recycling, and reduced carbon emissions in our estate and by reducing business travel.

We continue to support the government's commitment to reduce its impact on the environment. The table below gives a summary of our progress since 2010 and reports against the new government targets published in January 2017. The previously reported water best practice targets were removed under the new Greening Government Commitments reporting requirements.

Summary of our performance against the Greening Government Commitments					
compared to a 2009-10 baseline, the government will by 2019-20:	**2009-10 baseline**	**2015-16 performance**	**2016-17 performance**	**2017-18 performance**	**2020 Target performance**
reduce greenhouse gas emissions by 32% from the whole estate and UK business transport (bespoke targets apply to each department) (TCO2e)					
total greenhouse gas emissions	202,341[23]	122,564[24]	113,380	99,833[25]	**Achieved**
reduce the number of domestic business travel flights taken by 30%					
Number of domestic flights	21,931	8,867	7,568	5,590	**Achieved (75%)**
reduce waste sent to landfill to less than 10% of overall waste, continue to reduce the amount of waste generated and increase the proportion of waste which is recycled					
total volume of waste produced (tonnes)	16,626	8,916	8,896	8,523[26]	**Not met**
volume of waste recycled (tonnes)	10,522	5,718	5,776	5,474[27]	-
percentage of total waste to landfill	36.7%	35.9%	35.1%	35.8%	**Not met**
reduce the amount of paper used by 50%					
A4 reams	2,061,685	777,360	700,680	600,100	**Achieved (71%)**
A3 reams	8,606	3,595	3,635	2,165	**Achieved**
cost of cut paper	n/a	£1,349,882	£1,181,630	£1,041,016	-
continue to further reduce water consumption (each department will set internal targets and continue to improve on the reductions they had made in 2015-16 - 591,650 m^3) - DWP has a simple reduction target.					
total water consumption (m3)	810,701	591,650	606,029	606,501	**Not achieved**

23 This baseline was adjusted due to new conversion factors. It was originally 204,621.
24 Actual fugitive emissions and off contract rail data added as unavailable when previously published- Original figure was 122,901.
25 Estimated fugitive emissions data for final quarter included as unavailable at point of publishing.
26 This figure does not contain ICT waste as it was not recorded in the baseline.
27 Our waste management costs are included in our overall facilities management fee. It is not possible to separate out the cost of waste management.

Forward looking commitments

Following the transition to our new estates management arrangements, we are exploring new possibilities to increase the sustainability of estates. We are currently building our sustainable development plan for the new estates and identifying opportunities to invest in reducing our carbon footprint, wastes and water usage. A focus for the coming year is business travel, which we have identified as an opportunity to continue the good work undertaken in the last year. New ways of working through virtual meetings and teleconferences are reducing our business travel costs and emissions.

We are part of a whole-government commitment to have 25% of the government travel fleet be ultra-low emission by 2020 and will be taking initial action towards this goal in 2018.

Sustainable development goals

The government has committed to supporting the United Nations Sustainable Development Goals (SDGs), which set out goals and indicators to transform the world by 2030. The department actively supports the government in meeting SDG 1: no poverty and SDG 7: decent work and economic growth. In 2018-19, we will continue to focus on these goals while also considering the work we can do to support SDG 10: reducing inequalities.

Reserves challenge

In January 2018 we had 60 employees actively serving as reservists in HM Armed Forces. Our reservists have undertaken many duties this year including learning to drive a Challenger 2 main battle tank and undertaking peace keeping duties in Cyprus.

Colleagues took part in activities across the country to celebrate Armed Forces Day and Reserves Day. Activities included attending a Parliamentary reception and fundraising for the Airborne Forces Charity.

Helping our local communities

The Department for Work and Pensions encourage volunteering and engaging with local communities. Our Community 10,000 initiative supports colleagues to get out there and volunteer or fundraise for causes important to them. We also support the Big Idea, launched in May 2017 to provide a platform and support structure for colleagues' fundraising ideas. There are big idea groups for all of the regions, and since its launch in May 2017, collectively we have raised almost £600,000 for a variety of charities. Every year, individual colleagues do amazing things for charity, from coffee mornings to planting trees.

In 2017, amongst many other activities:

- the Ministerial Correspondence team did a volunteering day at Tower Hamlets cemetery maintaining the paths and planting new greenery
- one colleague organised a Dementia Walk in Caernarfon, raising more than £2,200
- the Scotland region Child Maintenance Group knitted and crocheted more than 1000 poppies for Poppy Scotland

Better Regulation

The Small Business, Enterprise and Employment Act 2015 requires the government to publish a Business Impact Target (BIT) in respect of qualifying regulatory provisions that come into force or cease to be in force during the current Parliament. The BIT is a cross-government target which aims to:

- provide a wider focus for the reduction of regulatory burdens on business enabling business to free up resources and boost productivity
- ensure there is transparency around the impact of regulation on business
- provide greater incentives for regulators to design and deliver policies that better meet the needs of business

The government is reviewing its BIT for the current Parliament and is expected to announce this in summer 2018.

Over the course of the last year, the Department for Work and Pension and its regulators, the Pensions Regulator and the Health and Safety Executive, continued to work bearing in mind the need to record potential contributions to the future Business Impact Target (BIT). The department contributed significantly towards the BIT target set for the previous Parliament.

Anti-bribery and corruption

DWP takes a zero-tolerance approach to bribery and corruption, and has held an Anti-Bribery Policy since April 2015. The Policy is owned by DWP Finance Group and applies to all DWP employees, suppliers, contractors and business partners. It covers legislation, the DWP Policy Response to the legislation, individual responsibilities, how to raise a concern and the records which should be kept to support the Policy.

Human Rights

We are dedicated to meeting the UK's commitments in the Human Rights Act 1998. We work to ensure that all our decisions relating to our people using our services are fully compliant with the Act and have procedures in place to address people concerned about potential human rights violations.

The department has been working in particular to ensure that disabled people have access to the labour market, according with the government' s commitment to see 1 million more disabled people in work by 2027. As part of our public sector equality duty, we ensure equality analysis is embedded into our decision making processes and equality data is used to monitor the impact of our policies and procedures.

Public Sector Equality Duty (DWP customers)

The Public Sector Equality Duty covers the 9 protected characteristics: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender, sexual orientation, and marriage and civil partnerships.

The department is committed to providing services which embrace diversity and which promote equality of opportunity. We take our legal obligations seriously and following legal judgements that have altered the interpretation of descriptors within Personal Independence Payment, we are undertaking LEAP exercises.

Under the Public Sector Equality Duty we give due regard to eliminating discrimination, advancing equality of opportunity and fostering good relations between different people when carrying out our business. We consider how our services may affect different groups of people and in different ways. We recognise that complying with the Duty helps us to carry out a business more efficiently, particularly in terms of improving decision-making and policy development, and thereby enabling us to develop services that meet the requirements of a diverse range of customers.

Our departmental role is to deliver essential services on work, welfare, pensions and child maintenance, while reducing inequality and promoting fairness. The performance analysis section sets out the policies and services we deliver to advance equality of opportunity for each of our key claimant and customer groups, which include groups whose characteristics are covered by the Duty.

We assess our performance against our objectives, as set out in the performance overview section, through our Single Departmental Plan headline indicators.

The department has in place a wide range of programmes and policies to ensure we provide our customers with the service they need. This includes:

- support for our staff including guides on additional needs and reasonable adjustments. We are also delivering a programme of awareness raising sessions for operational colleagues
- support for customers, providing a wide range of reasonable adjustments, including translation services, Next Generation Text, Video Relay Service and a range of alternative formats like Braille, large font and audio. This is supplemented with support guides for customers in multiple formats. We also provide a visiting service for vulnerable customers who are unable to use our other contact routes
- clear procedures for carrying out equality analysis for any policy changes to help minimise the risk of those from the protected characteristics being unfairly treated. We also provided large amounts of information and input into the Government wide Race Disparity Audit this year published on www.gov.uk.

The table below sets out the availability of information on protected characteristics for each of our 2017-18 headline indicators.

SDP Objective and Indicators	Publication and (Data Source)	Availability of information on protected characteristics in 2017-18
Support economic growth and improved productivity by ensuring work always pays and people are supported to find and progress in work		
Overall UK employment rate	Labour Market Statistics	Splits are currently published by age (table A05), disability (A08), ethnicity (A09), and gender (A02). Religion information is not routinely published.
Percentage of young people not in full-time education who are in employment		This indicator covers age. Splits are currently published by gender. Disability, ethnicity and religion are not routinely published.
Children living in workless households (%)	Working and workless households	No further breakdowns are routinely published. Age, ethnicity and gender of child are not routinely published.

Help reduce the disadvantages faced by disabled people and people with health conditions through the welfare system and labour market		
Employment rate of disabled people	Labour Market Statistics	This indicator covers disability. Splits are currently published by gender (Table A08). Age, ethnicity and religion are not routinely published.
The percentage of disabled people with a low income	Households Below Average Income	This indicator covers disability. Splits are currently published by age band (child, working age or pensioner). No other splits are routinely published.
Increase saving for, and financial security in, later life		
Number of eligible employees in a pension scheme sponsored by their employer	Workplace Pension and Trends publication	Splits are currently published by age, disability, ethnicity and gender.
Total pensions savings of eligible savers		No further splits are possible to establish with this data.
Pensioners on a low income (%)	Households Below Average Income	Splits are currently published by age, disability, ethnicity, gender and marital status.
Maximise the number of children benefiting from an effective child maintenance arrangement, encourage family based arrangements where appropriate and reduce parental conflict in families		
Children in couple-parent families reporting relationship distress	Improving Lives evidence base (using Understanding Society) data	Splits are also available by age of child, age of youngest parent and whether a parent is ill or disabled
Separated families with a maintenance arrangement		The process of refreshing this indicator has revealed significant issues with its methodology, therefore we have withdrawn it from this publication. We are currently developing a new indicator to be published by the end of 2018

Transform the way we deliver our services to improve quality and reduce costs		
Net benefit overpayments as a percentage of overall benefit expenditure	Monetary Value of Fraud and Error in the Benefits System national statistics	Gross overpayment splits are currently published by age and gender.
Customer and claimant satisfaction of DWP services (%)	DWP Claimant Service and Experience Survey	Splits are currently published by age, disability, ethnicity and gender, sexual orientation, religion and marital status.
New claims processed within planned timescales	Data by protected characteristics is not appropriate for this indicator. The data is drawn directly from the department's MISP system which simply supplies an aggregate count of claims cleared within particular timescales. It's not therefore possible to link with any claimant characteristics and can't be disaggregated.	

Customer satisfaction

Each year we survey customers' satisfaction with DWP's services. We use customer feedback to improve our operational and policy development.

A summary of findings from 2015-16 to 2016-17 are as follows:

Age – older people (66+) continued to have the highest overall satisfaction with DWP services in 2016-17 (92% for 66 to 74 and 95% for 75+ years). However, there has been a fall in satisfaction for those aged 66 to 74 years between 2015-16 to 2016-17 (96% to 92%). Both of the youngest age categories (16 to 24 and 25 to 34 years) saw an increase in overall satisfaction over the same period (88% to 91%, and 83% to 87% respectively).

Gender - women continue to be more satisfied with DWP services than men with the gap between the two groups increasing from 2 to 4 percentage points between 2015-16 to 2016-17, (83% for men and 85% for women in 2015-16; and 84% for men and 88% for women in 2016-17).

Disability – overall satisfaction with DWP services for people with a disability or health condition did not significantly change between 2015-16 to 2016-17 (83% and 82%). However, satisfaction for non-disabled people increased by 4 percentage points across the same period (86% to 90%).

Ethnicity - levels of satisfaction for all ethnic groups remained at over 80% in 2016-17 with White at 87%, Asian at 86%, Black at 85% and Mixed ethnicity at 82%. Satisfaction among most ethnic groups remained broadly constant between 2015-16 to 2016-17 with the exception of White which increased 2 percentage points (85% in 2015-16 to 87% in 2016-17).

Religion – 2016-17 is the first time satisfaction can be broken down by religion. There is no difference between the three main reported religious groups (86% with no religion, 86% of Muslims and 87% of Christians). Satisfaction for the Christian religion is the only one to significantly differ from the satisfaction level for all religions (87% for Christians versus 86% for all). The sample size for Jewish is too small to use for comparison.

Sexual Orientation – 2016-17 is the first time satisfaction can be broken down by sexual orientation. Bisexual customers were the most satisfied with DWP services (90%) with all groups reporting satisfaction levels over 80%.

Employment

As set out on pages 23 to 33, we offer a range of support to help people who can work to find work along with providing more specialist help when needed. The table below sets out the latest data on employment rate gaps for 4 protected characteristics:

Characteristic	Employment Gap Jan-Mar 2017	Employment Gap Jan-Mar 2018	Change (percentage points)
Gender (between males and females)	9.3ppts	8.8ppts	-0.5
Disability (between those who are declared disabled and non-disabled)	31.3ppts	Data under review*	N/A
Ethnicity (between those who are white and those from a BME background)	12.6ppts	11.8ppts	-0.8
Age (between those 50-64 and 35-49)	12.8ppts	13.6ppts	+0.8

* Due to ongoing investigations by the Office for National Statistics into an apparent discontinuity in their disability employment figures, it is not appropriate to compare the 2017 and 2018 employment gap at this stage. See page 41 for more details.

The gender employment gap is at record low levels down 5 percentage points since 1999, while there is no unemployment gender gap for the first time since records began. The ethnicity employment gap has reduced to a historically low figure and down nearly 6 percentage points since 2003. However the employment gap for those aged over 50 compared to those 35 – 49 years old has increased this year and is 0.8 percentage points higher than last year, but has decreased by 10 percentage points since 1993.

Poverty

The percentage of disabled people with a low income is a new indicator this year. The graph on page 42 shows the time series of the gap between households where someone has a disability and households where no one has a disability. The gap between households where someone has a disability and households where no one has a disability was 4 percentage points in 2016-17, one of the lowest gaps recorded and a fall of 5 percentage points from the peak of 9 percentage points in 2007-08.

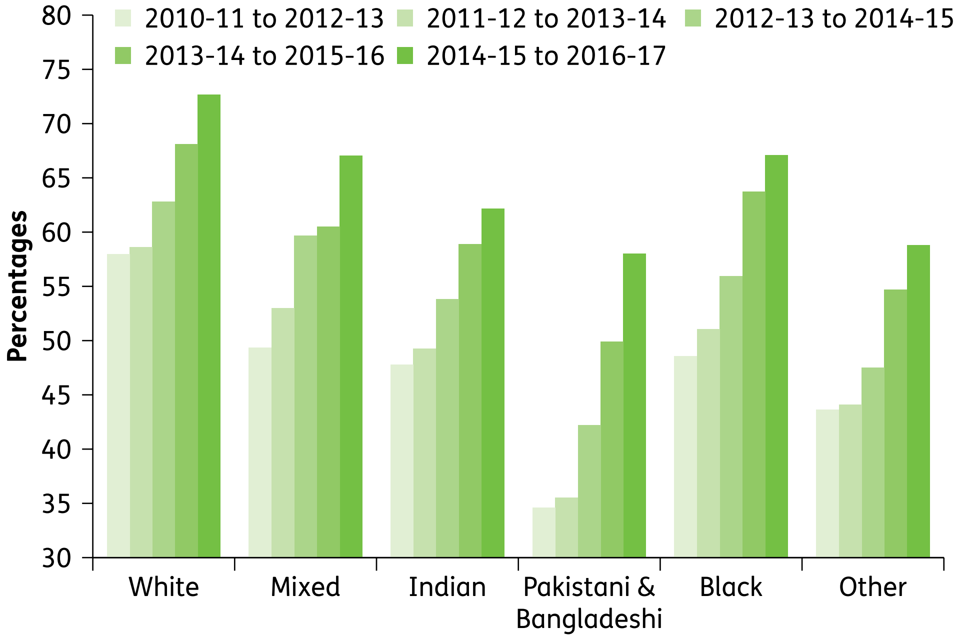
At present the percentage of people over State Pension age in low income is 16%, which compares favourably to the equivalent figure for the working-age population of 21%. In 2016-17 there is now no gap for people of pension age between families where someone is disabled and families where no-one is disabled with both reporting 16% in relative low income after housing costs.

Pension Participation

Through automatic enrolment we aim to improve equality and reduce poverty for future pensioners. Before automatic enrolment, people from ethnic backgrounds were far less likely to be participating in a pension scheme. Of note those from a

Pakistani or Bangladeshi background had particularly low participation rates with just 35% of eligible people in a pension scheme in 2010-11 to 2012-13 and gap of 23 percentage points to those from a white background. For the most recent period this gap had reduced to 15 percentage points and participation rates for those from a Pakistani or Bangladeshi background have improved to 58%.

Participation in all pensions by ethnicity



** Ethnicity analysis used a three year rolling average in order to account for volatility in single year results which are caused by small sample sizes and clustering effects.*

Automatic enrolment is also increasing the proportion of 22 to 29 year olds with a pension scheme. In 2012, just 35% of eligible 22 to 29 year olds were participating in a pension scheme representing a 27 percentage point gap to people aged between 50 years and State Pension age. This gap reduced to 6 percentage points by 2015, with 79% of eligible 22 to 29 year olds now saving for retirement.

The participation rate of eligible female employees in the private sector has doubled since the introduction of automatic enrolment, from 40% in 2012 to 80% by 2017.

More Information:

Further details on equality and diversity and links to other department publications that are available with various characteristic breakdowns can be found on www.gov.uk.

Further information is available on diversity and inclusion of DWP staff in the people and remuneration section of this report.

Peter Schofield CB
Permanent Secretary
26 June 2018

Accountability report

Corporate governance report

Director's report

The Secretary of State for Work and Pensions, appointed by the Prime Minister, has overall responsibility for the department including direct responsibility for departmental policies, expenditure and management.

The Permanent Secretary is responsible for the department's leadership, management and staffing to ensure effective and efficient delivery of the department's work to support government policies and objectives. The Permanent Secretary is also the Principal Accounting Officer, responsible for the propriety and regularity of the department's expenditure. Our funding sits in a number of categories and we are accountable to HM Treasury for meeting agreed funding limits in each category. Detail of outturn against these funding limits is shown in the Statement of Parliamentary Supply on page 143.

The departmental family

The departmental family consists of the core department and 12 arm's length bodies. The core department consists of our public services and our corporate functions.

An arm's length body is an organisation that delivers a public service, but is not a ministerial government department. Our arm's length bodies consist of non-departmental bodies and public corporations. They operate independently but are accountable to the department. Collectively our arm's length bodies employ around 3,700 staff with a net expenditure of around £230 million each year.[1]

Classification	Pension bodies	Other bodies
Public corporations	• Pension Protection Fund • National Employment and Savings Trust Corporation	• Office for Nuclear Regulation
Executive non-departmental public bodies	• The Pensions Regulator • The Pensions Advisory Service	• Health and Safety Executive • Disabled People's Employment Corporation (GB) Ltd
Tribunal or advisory non-departmental public bodies	• Pensions Ombudsman • Pension Protection Fund Ombudsman	• Industrial Injuries Advisory Council • Social Security Advisory Committee
Other (not yet formally classified)		• BPDTS Limited

Disabled People's Employment Corporation (GB) Ltd entered members' voluntary liquidation on 7 October 2017. Their accounting data to this date has been consolidated into this Annual report and accounts.

All but 3 of the arm's length bodies fall within our accounting boundary. The exceptions are the Office for Nuclear Regulation, the Pension Protection Fund, and the National Employment and Savings Trust (which is also an executive non-departmental public body).

We manage our relationships with our arm's length bodies in accordance with the Cabinet Office's Code of Good Practice which ensures a consistent approach. More information is available in the Governance Statement on page 104.

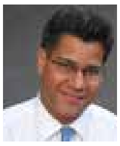
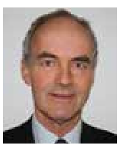
1 Excluding Public corporations which fall outside our accounting boundary

In addition to the arm's length bodies listed above, the Secretary of State has responsibility for Remploy Pensions Trustees limited, which is within the department's accounting boundary.

Senior decision-making forums

The Secretary of State for Work and Pensions is supported by the Permanent Secretary, ministers, Non-executive members and executive directors general. They operate through 2 senior decision-making forums: the departmental board and the executive team.

Departmental Board 2017-2018[2]
The board met 3 times this year.

	Rt Hon Esther McVey MP	Secretary of State for Work and Pensions and chairperson	appointed 9 January 2018	attended 1 board meeting (of 1 possible)
	Sarah Newton MP	Minister of State for Disabled People, Health and Work	appointed 9 November 2017	attended 2 board meetings (of 2 possible)
	Alok Sharma MP	Minister of State for Employment	appointed 10 January 2018	attended 0 board meetings (of 1 possible)
	Baroness Buscombe	Parliamentary Under Secretary of State for Work and Pensions (Lords)	appointed 15 June 2017	attended 2 board meetings (of 3 possible)
	Guy Opperman MP	Parliamentary Under Secretary of State for Pensions and Financial Inclusion	appointed 14 June 2017	attended 2 board meetings (of 3 possible)
	Kit Malthouse MP	Parliamentary Under Secretary of State for Family Support, Housing and Child Maintenance	appointed 10 January 2018	attended 1 board meeting (of 1 possible)
	Sara Weller CBE	Lead Non-executive board member	appointed 20 April 2017	attended 3 board meetings (of 3 possible)
	Lieutenant General (Rtd) Andrew Graham CB CBE	Non-executive board member	appointed 12 March 2015	attended 3 board meetings (of 3 possible)

2 Table does not include individuals who left in-year; see list of changes to decision-making forums on page 101.

	Ashley Machin	Non-executive board member	appointed 13 November 2017	attended 3 board meetings* (of 3 possible)
	Hayley Tatum	Non-executive board member	appointed 13 November 2017	attended 2 board meetings (of 2 possible)
	Peter Schofield CB	Permanent Secretary	appointed 16 January 2018	attended 1 board meeting (as Permanent Secretary and 2 as Finance Director General) (3 of 3 possible)
	Charu Gorasia	Interim Director General, Finance	appointed 16 January 2018	attended 1 board meeting (of 1 possible)
	Andrew Rhodes	Director General Operations	appointed 28 March 2016 last day of service 22 April 2018	attended 2 board meetings (of 3 possible)
	Susan Park	Interim Director General, Operations	appointed 12 March 2018	attended 1 board meeting (of 1 possible)
	Mayank Prakash	Chief Digital and Information Officer	appointed 17 November 2014	attended 2 board meetings (of 3 possible)

*Ashley Machin attended the earliest of the three departmental meetings in a representational capacity prior to formal appointment.

The **departmental board**, chaired by the Secretary of State, forms the collective strategic and operational leadership of the department and brings together the ministerial team, senior civil service leaders and senior non-executive members from outside of government.

The board has 5 main areas of responsibility:

Performance	• agreeing the Single Departmental Plan and overseeing progress towards achieving the strategic objectives • scrutinising the performance of the arm's length bodies • setting the department's values and standards
Strategy and learning	• setting the department's vision and ensuring all activities contribute towards it • ensuring strategic decisions are based on a collective understanding of policy issues • horizon-scanning and using outside perspectives to ensure we can be held to account for our outcome
Resources and change	• ensuring sound financial management and signing off large projects and programmes • scrutinising financial and human resource allocations and succession planning • ensuring organisational design supports achieving the strategic objectives
Capability	• ensuring we have the capability to deliver • ensuring we can meet current and future needs
Risk	• setting the risk appetite • ensuring controls are in place to manage risk

The departmental board has 3 sub-committees: the Departmental Audit and Risk Assurance Committee, Nominations Committee and Digital Advisory Committee. The board delegates work to the sub-committees and they examine issues in more detail.

The **Departmental Audit and Risk Assurance Committee** provides an independent review of the appropriateness, adequacy, integrity and value for money of our governance, risk management and control processes. The committee also regularly reviews the Permanent Secretary's control issues. The committee presents its findings directly to the departmental board for discussion and conclusion.

Departmental Audit and Risk Assurance Committee 2017-2018

The committee met 5 times this year.

	Lt Gen (retd) Andrew Graham CB CBE	Non-executive member and chair	appointed 1 April 2013	attended 5 meetings (of 5 possible)
	Martin Hagen	Non-executive member	appointed 1 April 2014	attended 5 meetings (of 5 possible)
	Lynne Shamwana (formerly Turner)	Non-executive member	appointed 1 April 2013	attended 3 meetings (of 5 possible)
	Ashley Machin	Non-executive member	appointed 30 June 2016	attended 4 meetings (of 5 possible)

The **Nominations Committee** advises on identifying and developing leadership and colleagues with high potential, our incentive scheme and succession planning. The committee presents its findings directly to the departmental board for discussion and conclusion.

Nominations Committee 2017-2018

The committee met 2 times this year.

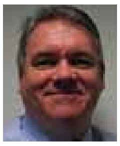
	Sir Robert Devereux KCB	Permanent Secretary until January 2018 Retired from department. Last day of service 31 January 2018	attended 1 meeting (of 1 possible)
	Peter Schofield CB	Permanent Secretary appointed January 2018	attended 1 meeting (of 1 possible)
	Sara Weller CBE	Lead Non-executive member and Chair	attended 2 meetings (of 2 possible)
	David Lister	Non-executive member left the department 30 June 2017	attended 1 meeting (of 1 possible)
	Debbie Alder	Director General, Human Resources	attended 2 meetings (of 2 possible)

Non-executives Andrew Graham and Hayley Tatum each attended one meeting of Nominations Committee in a transitional capacity whilst Non-executive recruitment was being finalised.

The **Digital Advisory Committee** is established by the Accounting Officer as a formal committee of the departmental board to provide independent expert advice enabling DWP and its arm's-length bodies to explore the potential of digital design, data and emerging technologies securely to achieve outcomes prioritised by DWP. The Digital Advisory Committee reports to the departmental board and Accounting Officer after each meeting.

Digital Advisory Committee 2017-2018

The committee met 4 times this year.

	Ashley Machin	Non-executive member and Chair from 15 December 2017	appointed 15 December 2015	attended 4 meetings (of 4 possible)
	Mayank Prakash	Chief Digital and Information Officer Chair to 4 December 2017 then member	appointed 17 November 2014	attended 4 meetings (of 4 possible)
	Robin Johnson	Non-executive member	appointed 1 January 2016	attended 3 meetings (of 4 possible)
	Jim Arnott	Non-executive member	appointed 15 December 2015	attended 4 meetings (of 4 possible)
	Keith Burgess	Non-executive member	appointed 13 November 2017	attended 3* meet-ings (of 4 possible)
	John Clarke	Non-executive member	appointed 13 November 2017	attended 2 meetings (of 2 possible)

* Keith Burgess guested at Digital Advisory Committee (DAC) in his Cabinet Office Crown Commercial capacity prior to his appointment to DAC.

Non-executive members play a critical role in the department. They advise on performance, operational issues and the management of the department and provide support, guidance and challenge on the delivery of the Single Departmental Plan. Non-executive members are also involved in senior-level recruitment and succession planning activities.

The non-executive members feed their views back to the Prime Minister via the non-executive board Members' Network and via the annual Lead Non-Executive's Report which can be found on page 122.

In March 2018 the **executive team** consisted of the Permanent Secretary and 8 directors general, 3 of whom also sit on the departmental board. The executive team supports the Permanent Secretary in the management of the department's business in line with ministerial priorities.

Executive Team as at 31 March 2018

	Peter Schofield CB	Permanent Secretary	appointed 16 January 2018
	Charu Gorasia	Interim Director General, Finance	appointed 16 January 2018
	Andrew Rhodes	Director General Operations	appointed 28 March 2016 left the department 22 April 2018
	Mayank Prakash	Director General, Technology	appointed 17 November 2014
	Debbie Alder	Director General, Human Resources	appointed 1 January 2014
	Neil Couling CBE	Director General, Universal Credit programme	appointed 1 October 2014
	Susan Park	Interim Director General, Operations	appointed 12 March 2018
	Jonathan Mills	Director General, Policy Group (formerly Strategy, Policy and Analysis Group)	appointed 29 August 2017
	Claire Johnston	Director General, Legal Services	appointed 12 January 2015
	**John-Paul Marks**	Interim Director General, Universal Credit Operations	appointed 12 March 2018

The executive team has collective responsibility for:

Strategy	considering the strategic implications of major policy development and agreeing major corporate policies
Resources	challenging and making corporate planning and investment decisions
Change	prioritising, approving and overseeing our change portfolio while supporting senior responsible owners to deliver their change programme objectives and benefits
Performance and Risk	managing performance and strategic risks
Ways of working	working together as one team with accountability for the success of the department as a whole

The executive team has one sub-committee: the People and Resources Committee.

The **People and Resources Committee** has responsibility for providing senior decision-making and governance on the key strategic people and financial issues relating to the running of the department. The People and Resources Committee has one sub-committee: the Investment Committee. The **Investment Committee** approves new change programmes and projects onto our major change portfolio. It has senior representatives from all business areas and helps the department focus on our ability to deliver strategic outcomes by realistically assessing affordability, deliverability, capacity, capability and interdependencies.

Further detail regarding the role of each committee or sub-committee can be found in the governance statement on page 105.

Register of interests

More information about our register of directors' and ministerial board members' interests can be found on page 127 of the Remuneration and staff report.

Changes to our senior decision making forums in 2017-18

The following changes took place between 1 April 2017 and 31 March 2018:

Role	Name	Change
Ministerial changes		
Secretary of State for Work and Pensions	Rt Hon Damian Green MP	left the department 10 June 2017
Secretary of State for Work and Pensions	Rt Hon David Gauke MP	appointed 11 June 2017 and left the department 8 January 2018
Secretary of State for Work and Pensions	Rt Hon Esther McVey MP	appointed 9 January 2018
Minister of State for Employment	Damian Hinds MP	left the department 8 January 2018
Minister of State for Employment	Alok Sharma MP	appointed 10 January 2018
Minister for Pensions and Financial Inclusion	Guy Opperman MP	appointed 14 June 2017
Minister for Family Support, Housing and Child Maintenance	Caroline Dinenage MP	appointed 14 June 2017 and left the department 9 January 2018
Minister for Family Support, Housing and Child Maintenance	Kit Malthouse MP	appointed 10 January 2018
Minister for Work and Pensions (Lords)	Baroness Buscombe	appointed 15 June 2017
Minister for Work and Pensions (Lords)	Rt Hon Lord Henley	left the department 15 June 2017
Minister for Welfare Delivery and Parliamentary Under Secretary of State	Caroline Nokes MP	left the department 13 June 2017
Minister for Pensions and Parliamentary Under Secretary of State	Richard Harrington MP	left the department 13 June 2017
Minister of State for Disabled People, Health and Work	Penny Mordaunt MP	left the department 8 November 2017
Minister of State for Disabled People, Health and Work	Sarah Newton MP	appointed 9 November 2017

Executive-level changes		
Lead non-executive member	Dame Clara Furse DBE	stepped down from the role 19 April 2017
Non-executive member	David Lister	left department 30 June 2017
Lead non-executive member	Sara Weller CBE	appointed 20 April 2017
Non-executive member	Hayley Tatum	appointed 13 November 2017
Non-executive member	Ashley Machin	appointed to departmental board on 13 November 2017
Permanent Secretary	Sir Robert Devereux KCB	retired last day of service 31 January 2018
Permanent Secretary	Peter Schofield CB	appointed 16 January 2018
Director General, Finance	Peter Schofield CB	promoted to Permanent Secretary 16 January 2018
Interim Director General, Finance	Charu Gorasia	appointed 16 January 2018
Director General, Strategy, Policy and Analysis	Jeremy Moore	retired 31 July 2017
Director General Policy Group (formerly Strategy, Policy and Analysis Group)	Jonathan Mills	appointed 29 August 2017
Universal Credit, Director General	Susan Park	left post 11 March 2018
Interim Director General for Operations	Susan Park	appointed 12 March 2018
Interim Universal Credit, Director General	John-Paul Marks	appointed 12 March 2018

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000 (GRAA) HM Treasury has directed me, Peter Schofield, to prepare consolidated resource accounts for the Department for Work and Pensions for each financial year. These accounts detail the resources acquired, held, used or disposed of during the financial year by the departmental group. The departmental family consists of the core department and its arm's length bodies.

The accounts are prepared on an accruals basis and give a true and fair view of the state of affairs of the departmental group. The accounts include the departmental group's net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts I have complied with the requirements of the Government Financial Reporting Manual (FReM). In particular I have:

- observed the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and applied suitable accounting policies on a consistent basis
- ensured that I have in place appropriate and reliable systems and procedures to carry out the consolidation process
- made judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by our arm's length bodies
- stated whether applicable accounts standards, as set out in the FReM, have been followed, and disclosed and explained any material departures in the accounts
- prepared the accounts on a going-concern basis

As far as I am aware, there is no relevant audit information of which the auditors are unaware and I have taken all steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

HM Treasury appointed me as the Accounting Officer of the Department for Work and Pensions. I have appointed the chief executive of each arm's length body as the accounting officer of their arm's length body. I remain responsible for ensuring that appropriate and reliable systems and controls are in place to ensure that monies paid to our arm's length bodies are used for the purposes intended.

I confirm that this Annual report and accounts 2017-18 is, as a whole, fair, balanced and easy to understand. I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, keeping proper records and safeguarding the assets of the Department for Work and Pensions, are set out in Managing Public Money published by HM Treasury.

Peter Schofield CB
Permanent Secretary

Governance Statement

Our Accounting Officer System Statement (AOSS), published in January 2018 (and available on gov.uk), sets out how the Permanent Secretary, as Principal Accounting Officer, fulfils his responsibilities and describes the accountability system in place for all expenditure of public money through the department's Estimate, all public money raised as income, and major contracts and outsourced services. This governance statement provides assurance which he has received from his executive directors and internal audit on how the system of control described in the AOSS has operated in 2017-18. It concludes with his assessment of the effectiveness of the system of control, and sets out the control challenges which he judges to be significant.

The system of control

We are governed by:

- the Secretary of State's overall responsibility for the department and its arm's length bodies
- the Permanent Secretary's responsibility, both to the Secretary of State and directly to Parliament, as the Principal Accounting Officer for the department's expenditure and management
- the departmental board's collective responsibility for advice on strategic and operational issues, and for scrutinising and challenging policies and performance

The system of control also includes the departmental board sub-committees, the executive team and its sub-committees, along with our control framework which is supported by internal and external assurance processes.

Following ministerial approval the department made a case to HM Treasury for an advance from the contingencies fund. This was for the costs associated with the recruitment of the Chair and Chief Executive of the board of the Single Finance Guidance Body in advance of Royal Assent to the Financial Guidance and Claims Bill. Following HM Treasury approval a written ministerial statement was made on 7 February 2018.

It has always been the government's intention that people in receipt of income-based Jobseeker's Allowance (JSA(IB)) should be entitled to a disability premium if they receive either Personal Independence Payment (PIP) or Armed Forces Independence Payment (AFIP). Guidance to decision makers was issued to reflect this intent and IT systems were updated. However, the JSA regulations, as currently amended, do not allow us to make this payment. As a consequence there will now be around 25,000 JSA(IB) claimants who are receiving the disability premium, or become entitled to a disability premium, where the legislation does not support the payments which are therefore irregular at a value of £61 million.

More information on regularity of expenditure is available on page 157

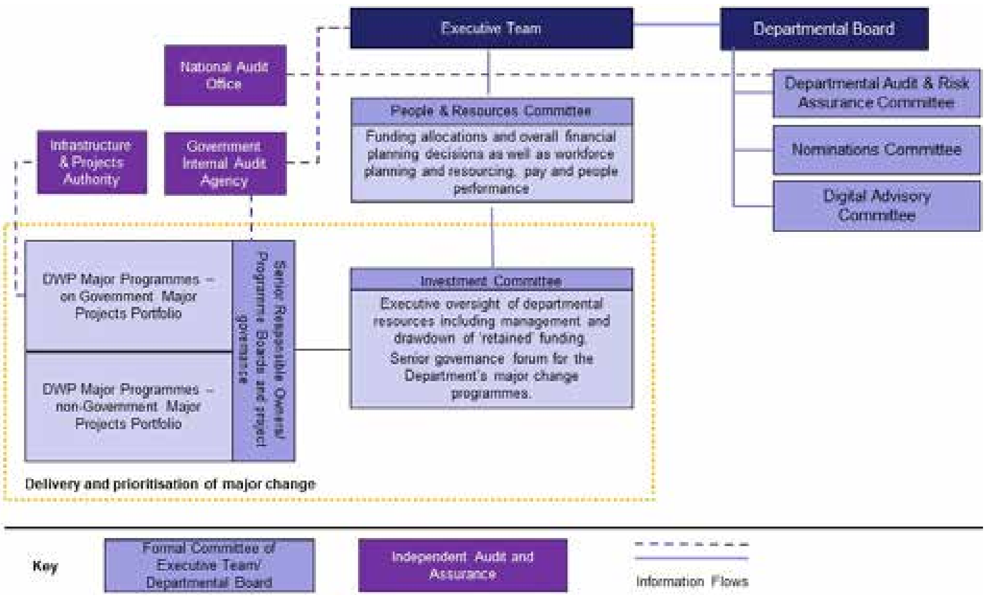
We will seek to amend the legislation at the earliest opportunity to reflect the policy intent, and thereby regularise future awards of the premium in the circumstances described. In the interim period we have sought authority from HM Treasury to carry on paying a sum equivalent to the value of the premium on an extra-statutory basis and agreed with them how to address the position since the introduction of PIP/ AFIP in 2013.

There were no ministerial directions in 2017-18.

Senior Governance Board Structure

The chart below sets out the structure of our senior boards and the lines of communication so that issues are escalated to the right audience. This structure and the terms of reference and membership of boards is kept under regular review.

Senior governance boards and external bodies



The Departmental Board

In 2017-18 the departmental board met three times. The board discussed issues including the Universal Credit (UC) rollout expansion, the department's operational performance and digital strategy. The board also endorsed a proposal to review and improve our approach to stakeholder management and develop a strategy to enhance how we engage positively with our partners, sharing insight to help shape our future and improve our services. In addition the board commissioned further work to be undertaken to enhance risk management across the department.

This year's board effectiveness evaluation was led by Sara Weller, our lead non-executive board member, and was independently assured by Catherine Brown, non-executive member of the Cabinet Office board. The evaluation focused on a forward looking approach in light of the number of board membership changes during the year. The board has subsequently endorsed a series of recommendations, including the formation of additional board sub-committees, each to be chaired by a non-executive member. The precise coverage and terms of reference of these additional sub-committees are currently being agreed.

The board is satisfied that we have complied with the principles in 'Corporate Governance in Central Government Departments: Code of Good Practice'. No concerns have been raised about the quality of information received by the board or its sub-committees. Members sponsor agenda items and ensure the paperwork meets agreed standards. This ensures paperwork is of a similar quality and supports focused discussion on key issues.

The lead non-executive member's report contains more detail on the board's work.

The departmental board has three sub-committees which, during 2017-18, undertook the following activities:

- The **Departmental Audit Risk and Assurance Committee** discussed the department's risk management arrangements, stewardship of our arm's length bodies, financial management and forward planning, Child Maintenance Group activity including the client fund account, General Data Protection Regulation implementation, cyber security and fraud and error. The committee receives a regular report from internal audit on their activities and delivery of their audit plan and also the plan and reports on the work of the National Audit Office.
- The **Nominations Committee** considered succession planning for the executive team, diversity and inclusion, the Employee Deal, gender pay gap and people performance. They also looked at how we will take forward governance of the department's people strategy
- The **Digital Advisory Committee** continues to offer an external perspective, provide coaching for digital executive team colleagues and support for our department as we reset commercial relationships with global CEOs

The Executive team

The executive team is the senior decision-making body for departmental management, and agrees the organisational structure, plans and resources that will deliver the department's agenda. The executive team maintains a strategic oversight of the department's major delivery commitments. The executive team members have appropriate delegated financial and risk management authority.

During 2017-18 the team continued its approach to performance discussions to improve assurance by focusing its weekly meetings on specific business lines, such as prioritising our change programme, agreeing our five year fraud and error strategy and UC rollout. The sessions are collectively led by groups of directors from across our business areas and together the executive team support each business area to make the right decisions.

The People and Resources Committee

The people and resources committee continues as a sub-committee of the executive team chaired by the Permanent Secretary. Membership is the same as the executive team with the exception of the director general, Legal who attends when relevant. The sub-committee has delegated responsibility for strategic decision making and governance on people and financial issues. Over the past year the sub-committee discussed our financial and workforce planning and resources for the current and, through our summer and winter planning process, for future years, the Employee Deal and people performance management.

The Investment Committee

The Investment Committee, a sub-committee of the People and Resource Committee chaired by our finance director general, approves new change programmes and projects onto our major change portfolio. The Investment Committee introduced new terms of reference from April 2017 and strengthened its membership to include a further three members of the executive team. It has senior representation from all our business areas.

The Investment Committee has helped the department focus on our ability to deliver strategic outcomes by realistically assessing affordability, deliverability, capacity, capability and interdependencies.

We changed our process for 2017-18 financial allocations with some of the allocation being retained where there was uncertainty about expenditure. Budget holders were issued with their delegated spending authority letters confirming authority to spend against their *firm* allocation only but were advised that *retained* allocations would be held to drawdown against once some elements of their plans had been further developed. The Investment Committee was responsible for the management and drawdown of all retained funding requests, reviewing updated plans throughout the year. This new arrangement was given 'substantial' assurance by the Chief Internal Auditor and will be carried forward into 2018-19.

The Investment Committee also introduced a new change assessment gateway formally requiring senior sponsorship of any new major change initiative together with endorsement from all other business areas before any formal feasibility work could commence. At the end of that time-limited period of feasibility, the Investment Committee decided if that initiative should continue, becoming a formal project or programme and whether it should be added to the major change portfolio.

The change assessment gateway

Each project or programme added to the major change portfolio must have a formal senior responsible owner supported by a formal programme board. Each programme board member has clear accountabilities with appropriate authority and they provide assurance to the Investment Committee and their own director general on compliance with departmental guidance and deliverability of the project or programme. Those accountabilities were reviewed in-year and refreshed programme board terms of reference will be introduced for 2018-19.

The accountabilities of senior responsible owners are formally delegated through appointment letters issued by the Permanent Secretary. If the project or programme is part of the Government's Major Projects Portfolio (GMPP) the formal appointment letter is jointly issued by the Permanent Secretary and the Chief Executive of the Infrastructure and Projects Authority (available through www.gov.uk). We currently have five programmes on the GMPP: Universal Credit, People and Locations, Automatic Enrolment, Work and Health, and Fraud, Error and Debt programmes. No new project or programme was added to, or removed from, the GMPP during the year.

We worked closely with the Infrastructure and Projects Authority and HM Treasury who provide independent assurance of our GMPP projects and programmes, including potential new programmes. There were ten external reviews during the year.

Annually Managed Expenditure

We jointly manage our annually managed expenditure (AME) with HM Treasury including through regular meetings held throughout the year. HM Treasury are involved in all decisions involving AME spend.

Our policy group director general is the senior responsible owner for AME, accountable for management of AME, including the submission of forecasts to the Office for Budget Responsibility.

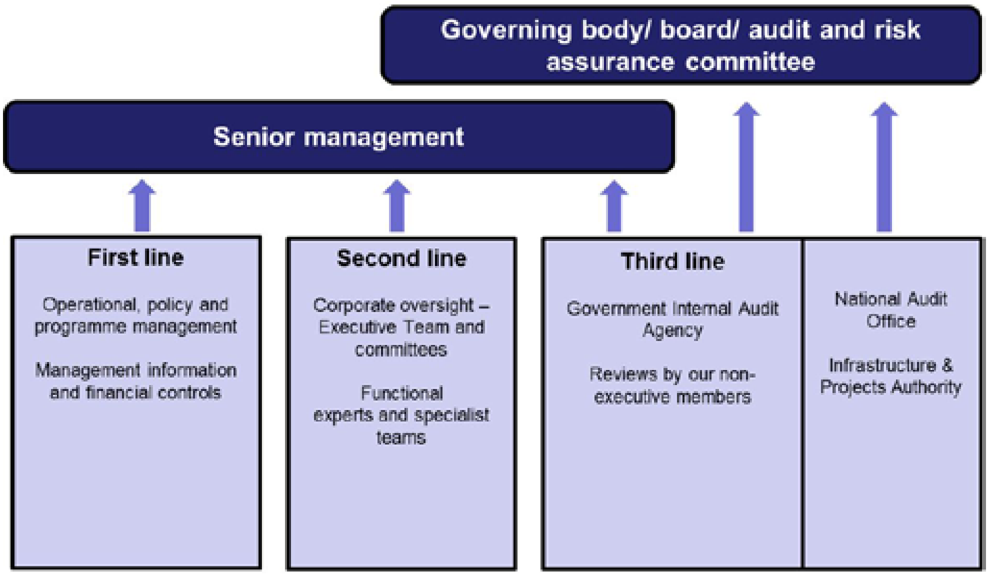
To provide a strategic oversight of current and potential future activity, we have established a LEAP (Legal Entitlement Administrative Practices) governance board, chaired by our director general, Legal Services, to monitor and actively manage LEAP activity across the department. It has senior representation from all our business areas.

LEAP is a special exercise we undertake to review benefit claims to ensure that our customers receive their full legal entitlements. Presently we have six exercises that are planned or currently underway including exercises to rectify Employment Support Allowance underpayments and implement the Personal Independence Payment judicial review. Details of these two specific instances and their impact on AME expenditure are set out in the benefit provisions note on page 215.

Risk management

Our risk management framework is based on ISO31000 and asks us to identify and assess risk in relation to organisational objectives. We also operate the three lines of defence approach with functional experts that support and challenge the first line reporting direct to senior management. We also have a centralised risk management and compliance function operating as the second line for risk management and compliance. External bodies, such as the National Audit Office and the Infrastructure and Projects Authority, continue to give us independent external assurances which complement internal and other external assurance activity.

Three lines of defence model



At the strategic level risks reported to our executive team are grouped around the five objectives in the Single Departmental Plan (SDP), and through the organisation the risks are mapped to those objectives at every level.

In assessing risks, the framework uses a matrix based on the probability of an event occurring and the impact should it do so. The impact ratings may be based on financial, legal, reputational and delivery measures.

The Risk Advisory board is held every two months to provide advice to the Finance director general about risks and risk management around our department. Board membership includes representatives from all business areas as well as subject matter experts. Strategic and external risks are reviewed by the board with deep dive sessions on key areas and risks to the department's objectives such as digital capability and GDPR. We have continued to develop our ability to portray the aggregate view of key risks across the organisation, brigaded around the objectives in our SDP.

Security and information management

Departmental security is managed and overseen by the Chief Security Officer (CSO) who chairs the Departmental Security Oversight board. The CSO is represented at the departmental board and the executive team by the Chief Digital and Information Officer who is also our Senior Information Risk Owner (SIRO). The SIRO is accountable for our information risk management.

During 2017-18 we continued to build a much fuller view of all security related risks. We are now using a governance risk and compliance tool to track our security risk portfolio. This helps to prioritise risk and allocate resources appropriately. We are also actively managing risk in the supply chain by reviewing the security standards that must be met in relation to the provision of any security related services in our organisation.

Working with colleagues across government we have jointly developed a thorough security maturity assessment to see how our security capabilities are maturing and to identify any gaps. This assessment has informed our priorities for 2018-19.

We have significantly improved our system protective monitoring capabilities, increasing coverage substantially. We have also established a specialist physical security team, based around the country to lead in setting physical security policies and standards, in managing security risk to our physical estate, people and information.

For the Transforming Government Security Programme the department is now leading a cluster of organisations including the Department of Health and Social Care and six non-ministerial regulatory departments. The Permanent Secretary is a member of the Transforming Government Security Steering Group which are overseeing this area as part of the wider Cabinet Office remit for developing both the government security profession and the newly established government security function.

We have appointed a departmental data protection officer to oversee the EU General Data Protection Regulation (GDPR) which came into force in May 2018. These more robust requirements will drive increased activity and compliance on all our sensitive personal files and we have set up a GDPR Programme to oversee implementation of products to assure our compliance. These products include a Personal Information Charter and a Right of Access Request both available on www.gov.uk.

The department is in a reasonably strong position, recognised as such by the fact that the Cabinet Secretary recently provided our planning approach as a best practice example across government to all Permanent Secretaries.

A change programme is in place to ensure all remaining areas of compliance are delivered. There is a funded and well controlled plan to deliver full compliance on the remaining digital products that require remediation:

- completion of paper records compliance
- amendment of all required forms and leaflets
- completion of a contract variation exercise, and
- the introduction of a digital tool to provide ongoing governance around unstructured data held across the department

The majority of that activity will be complete in 2018-19.

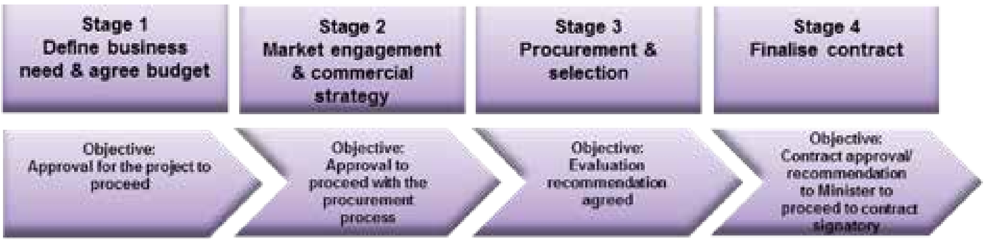
In 2017-18 no personal data incidents were formally reported to the Information Commissioner's Office.

Service provider management

We have embedded the Cabinet Office eight Commercial Standards and continue to improve our contract management and supplier management by undertaking targeted improvement activity. We have also accepted and implemented Internal Audit's recommendations to strengthen the assurance provided by senior contract owners that contracts are operating effectively and in accordance with the department's financial control framework.

Throughout the year we have redesigned our commercial risk management processes to ensure that risks are identified, assessed and managed on a more consistent basis, and this has entailed a substantial programme of learning events.

Our Commercial Approvals Board (CAB) review and assure all commercial activity over £100,000 at four key stages within the contracting lifecycle to ensure governance and approval routes are clearly defined. CAB approval must be provided prior to moving on to the next stage. As a result of introducing this approach in July 2017, we have seen increased scrutiny, challenge and control of commercial transactions. The four key stages are:



During 2017 we created a joint performance management organisation to oversee contracted health and employment provision which will ensure clearer responsibility and accountability between commercial and performance management roles and in turn will provide a more efficient and effective way in identifying and resolving contractual and performance risks.

Shared Services Connected Ltd

Shared Services Connected Ltd (SSCL), a joint venture organisation which delivers services to multiple government departments, provide our back office functions for human resources, finance and procurement. Cabinet Office act as a Framework of authority and provide an annual Letter of Assurance (LoA) to all customers based upon the overall SSCL audit and assurance programme.

Assurance over Shared Service provision to the department is provided by various sources, including:

- the ISAE 3402 report, which provides an industry standard on the design and effectiveness of key controls operated by Shared Services Connected Limited (SSCL)
- a programme of reviews delivered by SSCL's Internal Auditors; and
- Cabinet Office Framework level review work and audit work within the department, both provided by the Government Internal Audit Agency

For 2017-18, the LoA draws attention to some exceptions found by auditors PricewaterhouseCoopers (PwC) when completing an independent ISAE 3402 examination of SSCL's controls regime resulting in a qualified report. The exceptions are not significant either individually or collectively, to materially impact the department's control environment. In addition, SSCL have provided an assurance that there has been no misstatement of the financial figures contained within the accounts of any customer and this assurance is consistent with our view and that of the auditing community. SSCL have confirmed that the 17 exceptions identified by PwC will have been actioned and resolved by 30 June.

Having considered all the evidence from the overall audit and assurance programme and taken into account the specific exceptions found, we have concluded that the exceptions raised have had no material impact on the Department for Work and Pensions Annual Report and Accounts 2017-18.

Analytical Models Management

We continue to use the 2014 quality assurance framework which covers our business-critical analytical models. Our lead analysts are accountable for the quality of the models in their area and we provided best practice guidance and training to all staff developing models.

Our Policy Costings and Forecast Scrutiny Committee scrutinised our fiscal costings and forecasts for the Autumn Budget 2017. This improved quality, and provided feedback and learning to analysts.

The Office for Budget Responsibility (OBR) examined our forecasting model for the State Pension and Pension Credit as part of a rolling review of models that feed into their fiscal forecasts, and also examined costings related to Universal Credit. We have agreed the priorities with OBR for development work over the coming year, some of which will feed into Autumn Budget activity, and this work is ongoing. The Head of the department's Model Development Division chairs an inter-departmental working group on the quality assurance of analytical models which shares good practice.

Assurance about the operation of the system of control

Assurance from executives

At the end of the financial year, each director general provided the Permanent Secretary with their assurance on the effectiveness of the controls that support their business activities and delivery of the department's policies.

The Permanent Secretary is satisfied that, collectively, his directors general have an effective grasp of the governance and internal control structures within the businesses they lead and that he can rely on them to manage risks within their business. The directors general have identified a number of challenges this year which they are managing effectively within their teams. These include but are not restricted to:

- under-saving for retirement – the Government's 'Automatic Enrolment Review' published in December 2017 sets out proposals to address gaps in pension participation and to continue to strengthen workplace pension saving, particularly for low to medium earners and future generations
- exiting the EU: Developing policy / governance positions post-EU Referendum
- apprenticeships – the department may fail to achieve its legislative target in respect of apprenticeships

Assurances covering our arm's length bodies (ALBs)

The policy group director general provides assurance on the governance and control arrangements for the 13 ALBs which deliver outcomes on our behalf. The ALB Partnership Division is responsible for holding our ALBs to account and ensuring that they work to the high standards expected of them.

This year we oversaw the first in our programme of ALB tailored reviews covering issues of governance, efficiency and function. We continued to develop our engagement with the ALBs to share best practice, for example through shadowing and newsletters. We ensure our departmental board continue to receive regular updates and assurance on ALB performance through a performance dashboard.

The ALBs are responsible for ensuring that their risks are dealt with appropriately. Our risk management approach is written into the framework documents that govern our relationship with most of the ALBs. While it would not be appropriate for us to direct independent bodies to undertake specific risk management activity, we do monitor their financial and operational performance on an ongoing basis through regular dialogue with our ALB Partnership Division.

We conducted the second annual assurance assessment to assess the relationship with each body and the risks and opportunities posed to the department, and reported the results to the Departmental Audit and Risk Assurance Committee. During summer 2017 the ALB Partnership Division's control arrangements were subject to scrutiny by Internal Audit who rated the overall arrangements put in place by the division as 'substantial'. In addition, the Cabinet Office / Institute for Government conducted an annual survey to judge the extent of departments' compliance with the Cabinet Office Code of Practice. Our results were very positive, further endorsing the effective relationship with our ALBs.

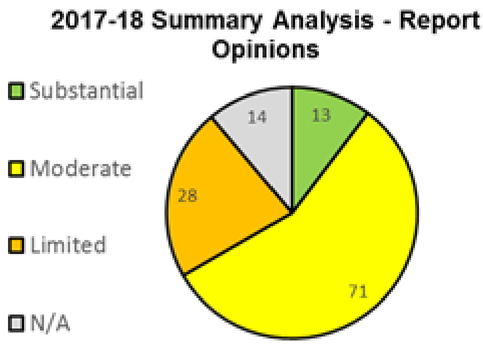
We have a centralised public appointments team, co-located with the ALB Partnership Division, which conducts all our recruitment for ALB public appointments exercises (typically ALB non-executive directors). The public appointments team collates statistics and information from each recruitment campaign to enable the Permanent Secretary to provide formal annual assurance to the Commissioner for Public Appointments that all public appointments made by our ministers are fully compliant with the Cabinet Office governance code on public appointments.

We have also put in place a quarterly security forum and ongoing support measures to assist our ALBs in identifying and addressing security capability requirements. This recognises the strengthened security assurance process put in place by Cabinet Office through the Transforming Government Security Programme and requiring more evidenced assurance from ALBs in the new Departmental Security Health Check.

Assurance opinion of DWP Group Chief Internal Auditor

The DWP Group Chief Internal Auditor (GCIA) provides independent assurance to our Permanent Secretary and Departmental Board (via the Departmental Audit and Risk Assurance Committee - DARAC). Their assurance opinion is derived from a risk based plan of work, agreed with departmental senior management and approved by DARAC. The GCIA's report to DARAC takes account of all audit assignments completed during the year, any observations arising from active involvement with the organisation (principally through attendance at key meetings and forums), ad hoc support and advice work and recommendation follow up activity. The GCIA judges that this is a sufficient body of evidence to provide a well-rounded view on the strength of risk control and governance arrangements within the department.

The GCIA's view is that a 'Moderate' assurance rating is appropriate for 2017-18. This is defined as 'some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control'.



Basis of Opinion

Continuous monitoring and re-evaluation of priorities has allowed Internal Audit to deliver a programme of work that has focussed on the areas of greatest risk in order to provide an opinion that is:

- positively stated, in that it is supported by sufficient reliable and relevant evidence and is not based on failure to see evidence of weakness; and
- reasonable, rather than absolute, and based on the likelihood of events taking place beyond the intended effects of the control system

Considerations

The GCIA's opinion is based on:

- reviews from the 2017-18 plan completed by late May 2018 which is sufficient coverage to enable an opinion to be drawn
- outputs of Internal Audit's follow-up activity in respect of outstanding audit recommendations
- knowledge available to Internal Audit through attendance at key management committees; access to departmental risk registers and key documentation; through ongoing discussions with the Accounting Officer, directors and senior management and from other assurances received within the business

They have also considered other factors, including that senior management:

- understands the need for best practice in matters of control, risk management and governance within DWP
- recognises the importance of maintaining standards of performance, integrity and professionalism within all operations
- the existence of a single departmental plan

Reliance on the work of other assurance providers

The department receives assurance from a number of organisations including Internal Audit who assess the work undertaken by them and where appropriate aim to place reliance on their work. The GCIA take account of the work of these organisations when formulating their opinion. Other sources of assurance considered include work undertaken by the:

- National Audit Office (NAO)
- Infrastructure Projects Authority (IPA)
- Cabinet Office assurance statements on shared service arrangements (e.g. recruitment, HR and financial services)

PSIAS Compliance

As part of their opinion, the GCIA must declare compliance with Public Sector Internal Audit Standards (PIAS) and is able to do so.

Whistleblowing

We have continued to promote the whistleblowing policy to support a culture of openness in the department. We encourage our employees to give their name when reporting incidents under a promise of support and confidentiality.

The number of concerns raised under the DWP Whistleblowing Policy in 2017-18 has reduced slightly compared with the same period in 2016-17. 65 referrals were received in 2017-18 (36 via the Whistleblower Hotline and 29 in writing), compared with 74 in the same period in 2016-17 (50 via the Hotline, 24 in writing). The nature of concerns raised via whistleblowing channels does not demonstrate any significant trends or key issues. The majority continue to relate to staff issues with no significant disparity between individual threat areas.

We have revised our disciplinary procedures to ensure our approach in tackling complaints is consistent.

Permanent Secretary's assessment of the system of control and the significant control challenges

From the developments recorded above in the system of control, and the assurances I have received, I consider that the department continues to make improvements in the controls it operates, and I share the Chief Internal Auditor's view that the controls provide 'moderate assurance'.

Within the overall system of control there are five control challenges which I regard as significant. Each of these, and the action we are taking, is described below.

Firstly, there is one control challenge reported in 2016-17 that I no longer regard as significant. This is the control challenge that reflected **performance variation in health service assessments** undertaken by DWP providers. Following contract and performance management activity undertaken by the department, both providers have seen a reduction in award rate variation and have now reached a similar level of variation in award rates (3.7% and 4.0%). I am satisfied that if current activity is maintained and seen as sustainable then performance variation in health services, while still a control challenge, I no longer consider as significant.

My continuing significant control challenges are:

1. monetary value of fraud and error
2. keeping our systems and data safe
3. maintaining IT services while effecting digital transformation
4. delivering Universal Credit

I have identified a further significant control challenge to:

5. embed and continuously improve our reform programme

Monetary value of fraud and error

Control challenge

This continuing control challenge is to protect the annual spend on benefits and pensions against fraud and error. The Comptroller and Auditor General has qualified his regularity opinion on our accounts since 1988-89 due to the material level of fraud and error in benefit expenditure.

What we have done

Our Counter Fraud and Compliance Directorate continues to bring together areas across the fraud and error community to deliver an 'end to end' approach to reducing benefit overpayments and underpayments.

We have used our teams who allocate national insurance numbers to strengthen the gateway to benefits, raised internal awareness and updated our policies to deliver more targeted fraud investigations. New independent assurance checks have helped establish root causes of error and identify cases for pre-payment checks. We launched our Operational Control Centre to consolidate all testing and trialling into a single plan.

We have expanded the use of real-time earnings and pension data in order to provide alerts on potential errors on Pension Credit and Housing Benefit (HB). We also commissioned an external credit reference agency to help identify potential 'living together' fraud.

Universal Credit (UC) continues to roll out and we expect the design of UC will lead to reduced fraud and error in benefits and Tax Credits once fully rolled out. Our analysis and intelligence area is increasingly helping develop risk profiling ahead of UC expansion.

My assessment of this control challenge

Our preliminary fraud and error estimates for 2017-18, published on 17 May 2018, showed that fraud and error overpayments are at 2.1% (£3.8 billion) of overall expenditure (£177.5 billion). These figures are up on 2016-17 (2.0% / £3.6 billion). Along with local authorities, we recovered an estimated £1.1 billion of benefit overpayments last year, resulting in an estimated net loss to the taxpayer of 1.5% (£2.7 billion). The preliminary estimates show that under payments have remained at 1.0% (£1.7 billion) the same as last year.

The detail on fraud and error is covered in the performance analysis section on pages 67 to 72 and in the Incorrect Payments Note on page 223.

Reducing the levels of fraud and error remains a priority for the department and my assessment is that while the overall estimate is not significantly different to previous years, this continues to be a significant control challenge.

Plans for 2018-19

During 2017-18 we have been developing our new fraud, error and debt strategy for 2022. This will set out our strategic focus on:

- introducing a risk and intelligence service, which will help optimise our use of data and improve our understanding of claimant behaviour
- helping customers take ownership of their claims
- exploring opportunities to further mitigate the risks associated with UC migration

The department is correcting some historic underpayments of Employment Support Allowance, which arose whilst reassessing Incapacity Benefit claims.

Keeping our systems and data safe

Control challenge

This continuing challenge reflects that the department holds a huge amount of personal data that we need to keep secure, in the face of increasing frequency of attacks on both public services and high profile companies. There is also the ongoing challenge to reinforce good information security practices and build new technical capabilities at a time of rapid transformation to digital services.

What we have done

We continue to successfully defend and protect all of our data from the ever evolving complex nature of security Cyber threats by ensuring our systems are secure through continuous improvement, integrated activities and increasing and maintaining our security maturity level.

We continue to improve protective monitoring across our networks and meet our security compliance and regulatory obligations. We have increased our security readiness across all our organisational levels.

We continue to build our capability, through a focus on security threats and risks, assessing vulnerabilities and impacts, prioritising activities to ensure we protect our critical business operations and sensitive data. This involves looking at security risks relating to our staff colleagues, our information systems and services, and our premises, to ensure that we apply and monitor appropriate controls to maximise our data protection at all times.

My assessment of this control issue

Keeping the sensitive personal data we hold and our information systems safe and secure from a range of threats, which include malicious or criminal intent and accidental breach, remains a significant challenge for the department.

Plans for 2018-19

- continue implementing our GDPR change programme
- continue to recruit to meet skills and capacity required and to deliver Transforming Government Security responsibilities
- continue to build capability through increasing organisational maturity, up-skilling in the security profession and expanding technical tooling
- maintain threat intelligence and applying to risk management
- maintain and monitoring of the security landscape for proactive security decision making

Maintaining IT services while effecting digital transformation

Control challenge

This continuing control challenge is to build our digital future at pace while we continue to manage the critical interface between old and new IT systems until our older systems are phased out or replaced.

What we have done

We continue to focus on a programme of change that replaces existing resource intensive processes with online digital services improving user experiences and providing exemplary 24/7 digital services for our customers. We have continued to upgrade our ageing infrastructure to ensure that our digital products and services are built on more stable and resilient foundations. We continue to make in-roads into our technological debt and develop new services based on recyclable and re-usable platforms.

We have further strengthened multi-disciplinary working with colleagues from other parts of DWP to co-create secure, scalable user-centred digital products which deliver DWP's policy intent.

We have continued to grow digital services, build next generation platforms, create authoritative sources of data and scale hybrid cloud hosting. In addition to buying leading products and services, we have invested further in our own capability, recruiting experts from across a wide range of specialist disciplines, and enhancing the skills of existing colleagues.

My assessment of this control challenge

While this year has seen us make significant progress in transforming all our lines of business and refreshing our ageing IT infrastructure, there remains much to do. My assessment is that this remains a significant control challenge.

Plans for 2018-19

2018-19 will see big changes in Digital Workplace including:

- introduction of Office 365
- rolling out new devices for colleagues
- Skype, Wi-Fi and video-conferencing

We will also continue to:

- improve hybrid hosting
- complete the rollout of our Next Generation Contact Centre
- build a replacement platform for Virtual Machine Environment (old operating system)

Delivering Universal Credit full service

Control challenge

This control challenge continues to focus on the safe and secure delivery of Universal Credit (UC).

What we have done

As set out earlier in this report, UC continues to make good progress and is now live in 254 sites as of 31 March 2018. The programme has put in place a robust set of controls and assurance to underpin delivery of the rollout plan. In October 2017 we went from rolling out at five jobcentres a month to around 45 a month until December 2017.

From February to April 2018 we modified the plan in order to implement the changes announced in the Autumn Budget. This includes:

- removing the 7-day waiting period for all claimants
- lengthening the period in which advances can be paid back from 6 to 12 months
- increasing the amount of advances to up to 100% of the estimated monthly entitlement whilst the first payment is awaited

The roll-out continued at 10 jobcentres a month until May 2018 and then increased to 41, and then 60 a month thereafter.

An Infrastructure and Projects Authority health check in September 2017 confirmed that the programme was ready to scale and made eight recommendations.

My assessment of this control issue

Recent progress and the developments in train give me confidence about the ability to deliver UC safely and securely however, this remains a complex programme. Therefore, my assessment is that this remains a significant control challenge.

Plans for 2018-19

We plan to:

- complete national delivery of UC to around 640 jobcentres – by December 2018
- close UC live service, including transfer of all claimants to the full UC service - by March 2019
- complete national rollout of integrated telephony (integrated with case management) – by August 2018
- develop and implement the Welsh Language solution
- implement Health Gather to improve Work Capability Assessment referrals
- migrate to the Strategic Appointment Booking Supplier

These steps will ensure that the Programme will be ready for the managed migration phase which starts in 2019.

The National Audit Office has recently published their latest value for money study on UC. This precedes a hearing at the Public Accounts Committee. We will reflect on the recommendations from both of these and where appropriate we will ensure the programme takes these into account.

Embed and continuously improve our reform programme for health and disability benefits

Control challenge

This control challenge focuses on delivering on the existing, complex health and disability system whilst developing the system for the future.

What we have done

We have continued the implementation of welfare reforms which has included moving people on Disability Living Allowance to Personal Independence Payment (PIP).

We have delivered on a range of historical issues and legal challenges and following a review of departmental processes I have strengthened our governance arrangements to improve visibility of legal risks and uncertainties by establishing the LEAP (Legal Entitlement Administrative Practices) governance board. We have put in place robust arrangements to ensure that the people, around 70,000 in total, who were underpaid on transfer to Employment and Support Allowance (ESA) from other benefits receive the money to which they were entitled. Please see note 17 Provisions for liabilities and charges and note 20 Contingent liabilities on pages 215 and 233.

To continue to have a strong platform to deliver for the future, I have also appointed a Senior Responsible Owner to lead a review of the current framework for our health assessment provider re-contracting which will assess the extent to which the current approach may need to be revised in the future.

In November 2017 we published our 'Improving Lives: the future of work, health and disability' strategy covering benefit reassessments, role of employers and access to occupational health services to help 1 million disabled people into work.

My assessment

This area is a significant control challenge for the department with a number of legal challenges to the policy still to be decided and errors in the way we have implemented earlier reforms to be fixed.

Plans for 2018-19

We will continue to take meaningful action in response to the outcomes of judicial reviews and, following acceptance of the outcome of a judicial review into PIP, we will review those claims potentially impacted by this judgement. Similarly, we will continue to focus on completing the review of around 300,000 ESA claims to identify the people affected by our error and pay arrears where due by April 2019.

We will seek to amend legislation at the earliest opportunity to reflect the policy intent to ensure regularity in payments for those income based JSA customers also in receipt of PIP/ AFIP.

To deliver our long-term strategy we will continue to work across departments and with external groups to strengthen links and develop plans for the future, including on work capability assessments reform.

Peter Schofield CB
Accounting Officer

Lead non-executive member's report

Having joined the Department of Work and Pensions in April 2017, I am delighted to present my first Year End Review as the lead non-executive member of the departmental board.

Our department is one of the largest and most complex government departments, dealing with most citizens at some point in their lives. During my induction, I took the chance to visit many of the diverse operational sites, including Pensions servicing in Cwmbran, the Child Maintenance team in Hastings and a Universal Credit (UC) support centre in Canterbury, along with jobcentres working on both the pre-UC system and the new full service UC operation. I have been struck by the dedication of members of staff, particularly given the age and complexity of many of the systems they are working with, and their absolute commitment to serving well the people that they support.

2017-18 was a year of significant change within the department and its departmental board, which resulted in the board meeting just 3 times in the year. Those meetings focused on topics such as best practice in delivering effective operational performance at scale, and the progress on and rollout plans for UC.

In addition, the two Board Sub-Committees, the Audit and Risk Committee (DARAC) and the Digital Advisory Group (DAC) continued to meet regularly and provided substantial oversight and challenge to the department's plans. The non-executives also met with the executive team on a number of occasions to discuss progress against departmental priorities.

The department previous lead non-executive, Dame Clara Furse, stepped down in April 2017, and David Lister, a non-executive who also led external input on DAC, stepped down in July 2017. I would like to extend my thanks to them both.

After a thorough external recruitment process, I was delighted to welcome two new non-executives to the departmental board: Ashley Machin, an experienced Digital business leader, who had been a member of DAC and has now become its Chair, and Hayley Tatum, the Human Resources director for Asda, a business based in Leeds with around 150,000 colleagues across the UK. They join me and Andrew Graham (the Chair of DARAC) on the departmental board. Their collective skills and knowledge, of technology driven change, managing high profile risks, and understanding the demands of complex, people led organisations are already proving valuable to the department.

Heading into 2018-19, we have a new Secretary of State, a fully new Ministerial team, a new Permanent Secretary, 2 new Directors General and 3 (out of the team of 4) new non-executives on the departmental board.

The board's annual Effectiveness Evaluation, conducted in spring 2018, focused on the future role of the departmental board and other ways in which non-executives should contribute to departmental work. Actions now being implemented include: reviewing how non-executive input to the Operations and People functions could be enhanced; considering how risks are monitored and managed within the department; and establishing more regular meetings between the non-executive team and the Permanent Secretary and his directors general.

The new departmental board has already met, to focus on the priorities for us in the year ahead. The departmental board will provide support and challenge to key programmes, such as the successful implementation of UC, embedding changes post EU exit and driving up the efficiency of our operations, particularly through enhancement of IT and digital services.

In 2018-19, non-executives will additionally provide expertise, insight and challenge to a range of areas of our work, such as:

- to support better engagement with the widest possible range of existing stakeholders, e.g. large and small businesses, local and national charities and other groups working with those impacted by the department's activity
- to inform, from a business and employers' perspective, consideration of the changing nature of work and its influence on the department's future plans

Finally, we have a number of important arms' length bodies (ALBs) including the Pensions Regulator, the Pension Ombudsman, the Health and Safety Executive and the Office for Nuclear Regulation. These ALBs have their own independent Chairs and Boards, and I will be seeking to establish better connections between all the non-executives in the department's group, including those on DAC, DARAC and the ALBs. Together these non-executives provide a depth of expertise that can be used in a range of areas where ministers or executives seek an additional external perspective or challenge.

We are not alone in facing continued public scrutiny and substantial financial, operational and reputational challenge in 2018-19 and beyond. I, along with the whole non-executive team, look forward to supporting the departmental board in reviewing and tackling these challenges successfully, such that we can continue to deliver its vision to create a welfare system that provides security, extends opportunity and promotes personal responsibility to help people transform their lives.

Sara Weller CBE
Lead Non-Executive
Department for Work and Pensions

Remuneration and staff report

Remuneration policy

The pay of most Senior Civil Servants is set by the Prime Minister following independent advice from the Senior Salaries Review Body, details are available on www.gov.uk. This body also advises the Prime Minister on peers' allowances; the pay, pensions and allowances of MPs; and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

Salaries are solely for the period in the year when an individual served as a member of our executive team. Salaries include:

- gross salary
- overtime
- reserved rights to London weighting or London allowances
- recruitment and retention allowances
- private office allowances
- any other allowances and contracted expenses to the extent that they are subject to UK taxation

Appointment of directors

Civil service appointments are made in accordance with the Civil Service Commissioner's Recruitment Principles. These principles require appointments to be made on merit and on the basis of fair and open competition. However, there may be exceptions to this principle.

Unless stated otherwise, all appointments 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.

Remuneration and pension entitlements for ministers and executive directors

Ministers' pay

(This information is subject to audit)

Ministers	2017-18 Salary £	2017-18 Full year equivalent £	2017-18 Pension benefits to nearest £1,000[3]	2017-18 Total to nearest £1,000[4]	2016-17 Salary £	2016-17 Full year equivalent £	2016-17 Pension benefits to nearest £1,000[3]	2016-17 Total to nearest £1,000[4]
Rt Hon Esther McVey MP from 9 January 2018	15,425	67,505	4,000	20,000	-	-	-	-
Rt Hon David Gauke MP from 11 June 2017 to 8 January 2018	38,955	67,505	9,000	48,000	-	-	-	-
Rt Hon Damian Green MP from 14 July 2016 to 10 June 2017	13,126	67,505	17,000	30,000	48,270	67,505	13,000	61,000
Guy Opperman MP from 14 June 2017	17,838	22,375	5,000	23,000	-	-	-	-
Baroness Buscombe from 15 June 2017	45,194	105,076	-	45,000	-	-	-	-
Sarah Newton MP from 9 November 2017	12,496	31,680	4,000	16,000	-	-	-	-
Alok Sharma MP from 10 January 2018	7,154	31,680	2,000	10,000	-	-	-	-
Kit Malthouse MP from 10 January 2018	5,052	22,375	2,000	7,000	-	-	-	-
Caroline Dinenage MP from 14 June 2017 to 9 January 2018	12,751	22,375	3,000	16,000	-	-	-	-
Damian Hinds MP from 15 July 2016 to 8 January 2018	24,441	31,680	6,000	31,000	22,568	31,680	6,000	28,000
Penny Mordaunt MP from 15 July 2016 to 8 November 2017	19,184	31,680	5,000	24,000	22,568	31,680	6,000	29,000
Richard Harrington MP from 16 July 2016 to 13 June 2017	4,537	22,375	1,000	6,000	15,879	22,375	4,000	20,000
Caroline Nokes MP from 16 July 2016 to 13 June 2017	4,537	22,375	1,000	6,000	15,879	22,375	4,000	20,000

Lord Henley did not receive any salary, he was appointed Parliamentary Under Secretary of State for DWP on 9 January 2017 and left on 15 June 2017.

Baroness Buscombe joined DWP on 15 June 2017 as an unpaid Parliamentary Under Secretary of State and did not receive any salary until being appointed as a paid Parliamentary Under Secretary of State on 27 October 2017. The salary disclosed above is for the period 27 October 2017 to 31 March 2018. Included in the figure is Lord Office-holders Allowance of £15,641 (FYE £36,366). Salary entitlements prior to that are disclosed in HM Treasury's Annual report and accounts.

Government departments bear only the cost of the additional ministerial salary. Salaries for services as MPs (£76,011 from 1 April 2017) and other allowances are borne centrally.

No Minister received any benefit in kind.

3 To calculate the pension benefits accrued during the year, we first take the real increase in pension and multiply it by 20. Then we subtract the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.
4 Totals may not sum due to rounding on pension and totals columns.

Executive directors' pay

(This information is subject to audit)

Executive directors	2017-18 Salary £000	Bonus payments £000	Benefit in kind £	Pension benefits £000	Total £000	2016-17 Salary £000	Bonus payments £000	Benefit in kind £	Pension benefits £000	Total £000
Peter Schofield CB from 18 July 2016	150-155(FYE 175-180)	-	-	117	270-275	95-100 (FYE 135-140)	-	-	39	135-140
Sir Robert Devereux KCB from 1 January 2011 to 31 January 2018	155-160(FYE 185-190)	15-20	-	-	170-175	185-190	-	-	-	185-190
Debbie Alder from 1 January 2014	125-130	-	300	49	175-180	125-130	-	-	49	170-175
Jeremy Moore from 27 January 2014 to 31 July 2017	45-50(FYE 135-140)	10-15	-	-	60-65	135-140	15-20	-	-	150-155
Neil Couling CBE from 1 October 2014	145-150	0-5	-	42	190-195	140-145	-	-	158	295-300
Mayank Prakash from 17 November 2014	195-200	-	-	-	195-200	195-200	15-20	-	-	215-220
Andrew Rhodes from 28 March 2016	145-150	-	30,500	75	250-255	135-140	10-15	37,600	118	305-310
Susan Park from 20 February 2017	135-140	10-15	100	121	265-270	10-15 (FYE 120-125)	-	-	16	30-35
Jonathan Mills from 29 August 2017	70-75(FYE115-120)	-	-	93	160-165	-	-	-	-	-
Charu Gorasia from 16 January 2018	25-30(FYE 125-130)	-	-	14	40-45	-	-	-	-	-
John-Paul Marks from 12 March 2018	5-10(FYE 110-115)	-	-	5	10-15	-	-	-	-	-

Peter Schofield CB was appointed Permanent Secretary on 16 January 2018 with an annual salary of £175,000-180,000. Prior to this he was the Finance director general with an annual salary of £145,000-150,000. His remuneration for the full year is disclosed in the table above.

Claire Johnston (appointed 12 January 2015) is director general Legal Services and our senior legal adviser. Our legal services are provided by the Government Legal Department and as such her remuneration is disclosed in their annual report and accounts.

Benefit in kind figures relate to taxable travel expenses.

Salary

Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowance, private office allowances and any other allowance to the extent that they are subject to UK taxation.

Bonuses

Bonuses are non-consolidated variable performance related payments awarded to our highest performing civil servants at the end of the year. Bonus payments are normally paid in July for performance in the preceding financial year, therefore payments made in 2017-18 relate to performance between 1 April 2016 and 31 March 2017.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the department and treated by HM Revenue and Customs as a taxable emolument. Elements of the remuneration package which are non-cash are classified as benefits in kind.

Conflict of interest

We keep a register of our directors' and ministerial board members' interests. This contains details of company directorships and other significant interests held by those members. None of our ministers or directors held directorships which conflicted with their management responsibilities in 2017-18.

Copies of the register are available on request. A list of ministerial board members interests can be viewed online at www.gov.uk

Non-executive directors' fees

(This information is subject to audit)

Non-executive directors	Board	Fees 2017-18 to the nearest £1,000	Benefit in kind 2017-18 to the nearest £100	Fees 2016-17 to the nearest £1,000	Benefit in kind 2016-17 to the nearest £100
Sara Weller CBE from 20 April 2017	Departmental Board	19,000	1,600	-	-
Dame Clara Furse DBE from 10 November 2014 to 19 April 2017	Departmental Board	Honorarium of 20,000 waived	-	Honorarium of 20,000 waived	-
David Lister from 1 July 2011 to 30 June 2017	Departmental Board	4,000	-	15,000	-
Lynne Shamwana (formerly Turner) from 1 April 2013	DARAC	15,000	-	15,000	-
Lt Gen (retd) Andrew Graham CB CBE from 1 April 2013	Departmental Board and DARAC	20,000	1,200	20,000	1,100
Sir Robert Walmsley from 29 July 2013	Universal Credit Programme Board	15,000	100	15,000	-
Martin Hagen from 1 April 2014	DARAC	15,000	900	15,000	700
Jim Arnott from 15 December 2015	Digital Advisory Committee	15,000	-	15,000	-
Ashley Machin from 15 December 2015	Departmental Board, Digital Advisory Committee and DARAC	15,000	-	15,000	-
Robin Johnson from 1 January 2016	Digital Advisory Committee	15,000	-	15,000	200
Hayley Tatum from 13 November 2017	Departmental Board	6,000	300	-	-
John Clarke from 13 November 2017	Digital Advisory Committee	6,000	-	-	-
Keith Burgess from 13 November 2017	Digital Advisory Committee	6,000	-	-	-
Total		**150,000**	**4,000**	**125,000**	**2,000**

Benefit in kind figures relate to travel.

Totals may not sum due to rounding.

Fair pay disclosure

(This information is subject to audit)

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in DWP in the financial year 2017-18 was £195,000 to £200,000 (2016-17: £215,000 to £220,000). This was 7.91 (2016-17: 9.13) times the median remuneration of the workforce, which was £24,976 (2016-17: £23,813).

	Pay band of highest paid executive director	Median total pay	Ratio
2017-18	£195,000-£200,000	£24,976	1:7.91
2016-17	£215,000-£220,000	£23,813	1:9.13

In 2016-17 and 2017-18 no employees received remuneration in excess of the highest-paid director. Remuneration ranged from £16,000-£16,500 to £195,000-£200,000 (2016-17: £16,000-£16,500 to £215,000 to £220,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

The reduction in the ratio is due an increase in the median pay, arising from year two of our Employee Deal and the pay of our highest paid director being lower than last year.

Ministers' and executive directors' pensions

(This information is subject to audit)

Ministers	Total accrued pension at age 65 as at 31 March 2018 £000	Real increase in pension at age 65 £000	Cash equivalent transfer value at 31 March 2018 £000	Cash equivalent transfer value at 31 March 2017 £000	Real increase in cash equivalent transfer value £000
Rt Hon Esther McVey MP	0-5	0-2.5	33	29	2
Rt Hon David Gauke MP	5-10	0-2.5	69	59	3
Rt Hon Damian Green MP	5-10	0-2.5	107	91	14
Guy Opperman MP	0-5	0-2.5	13	8	2
Baroness Buscombe	-	-	-	-	-
Sarah Newton MP	0-5	0-2.5	16	13	2
Alok Sharma MP	0-5	0-2.5	10	8	1
Kit Malthouse MP	0-5	0-2.5	1	-	1
Caroline Dinenage MP	0-5	0-2.5	12	9	1
Damian Hinds MP	0-5	0-2.5	21	15	2
Penny Mordaunt MP	0-5	0-2.5	21	17	1
Richard Harrington MP	0-5	0-2.5	11	10	1
Caroline Nokes MP	0-5	0-2.5	4	3	-

Where a minister left our department part way through the year the cash equivalent transfer value column refers to the date of leaving.

Executive directors	Accrued pension at pension age as at 31 March 2018 £000	Real increase in pension and related lump sum at pension age £000	Cash equivalent transfer value at 31 March 2018 £000	Cash equivalent transfer value at 31 March 2017 £000	Real increase in cash equivalent transfer value £000
Peter Schofield CB	50-55 plus 130-135 lump-sum	5-7.5 plus 5-7.5 lump-sum	876	754	69
Sir Robert Devereux KCB*	-	-	-	-	-
Debbie Alder	20-25	2.5-5	286	243	25
Jeremy Moore**	-	-	-	-	-
Neil Couling CBE	55-60 plus 170-175 lump-sum	0-2.5 plus 5-7.5 lump-sum	1,165	1,058	35
Mayank Prakash ***	-	-	-	-	-
Andrew Rhodes	30-35	2.5-5	355	300	28
Susan Park	65-70 plus 200-205 lump-sum	5-7.5 plus 15-17.5 lump-sum	1,463	1,267	113
Jonathan Mills	25-30 plus 60-65 lump-sum	2.5-5 plus 7.5-10 lump-sum	359	290	50
Charu Gorasia	15-20	0-2.5	184	173	6
John-Paul Marks	25-30	0-2.5	265	254	2

Where an executive director leaves or joins our department part way through the year the cash equivalent transfer value column refers to the value at the date of joining or leaving.

*Sir Robert Devereux KCB opted out of PCSPS from 31 March 2012 as such there is no requirement to disclose his pension values.

**Jeremy Moore opted out of PCSPS from 1 April 2016 as such there is no requirement to disclose his pension values.

***Mayank Prakash has opted into a partnership pension scheme, his 2017-18 employer contributions were £32,800 (rounded to nearest £100).

Ministerial pensions

Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute and the rules are set out in the Ministers' etc. Pension Scheme 2015, available at: www.mypcpfpension.co.uk

Ministers who are Members of Parliament (MP) may also accrue an MP's pension under the PCPF (we haven't included details in this report). A new MP's pension scheme was introduced from May 2015, although members who were aged 55 or older on 1 April 2013 have transitional protection to remain in the previous final salary pension scheme.

Benefits for ministers are payable from state pension age under the 2015 scheme. Pensions are re-valued annually in line with Pensions Increase legislation both before and after retirement. The contribution rate from May 2015 is 11.1% and the accrual rate is 1.775% of pensionable earnings.

The figure shown for pension value includes the total pension payable to the member under both the pre and post 2015 ministerial pension schemes.

Further details of the scheme are available at www.mypcpfpension.co.uk

Executive directors' pensions

Pension benefits are provided through the civil service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump-sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump-sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump-sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the civil service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk.

Cash equivalent transfer value (CETV) – ministers and executive directors

(This information is subject to audit)

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.

A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement. It can be made when a 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 the individual has accrued from their total service. For ministers that's all their time as a minister, not just their current employment. For executive directors, that's all the time they've been a member of that pension scheme, not just the time they were in a senior role.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost.

CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008. They do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

Real increase in the value of the CETV

This is the element of the increase in accrued pension funded by the Exchequer for ministers and by the employer for executive directors. It excludes increases in accrued pension due to inflation and contributions paid by the minister or employee. It is worked out using common market valuation factors for the start and end of the period.

Average staff numbers and composition

(This information is subject to audit)

The average number of whole-time equivalent people employed during the year is shown in the table below.

					2017-18	2016-17
					Number	Number
	Permanent staff	Others	Ministers	Special Advisers	Total	Total
Number of staff	75,601	2,887	6	1	78,495	78,424
Staff engaged on capital projects	67	-	-	-	67	32
Total	**75,668**	**2,887**	**6**	**1**	**78,562**	**78,456**
Of which:						
Core department	72,054	2,733	6	1	74,794	75,150
Arm's length bodies	3,614	154	-	-	3,768	3,306
Total	**75,668**	**2,887**	**6**	**1**	**78,562**	**78,456**

Senior Civil Servants

Our executive directors are all Senior Civil Servants. In total there were 202 individual Senior Civil Servants, totalling 197.76 whole-time equivalents, as at 31 March 2018. This is 5 less than last year.

Senior Civil Servant headcount by payband		March 2014	March 2015	March 2016	March 2017	March 2018
Permanent Secretary	£150,000- £200,000	1	1	1	1	1
SCS3	£107,000-£208,100	7	7	8	6	6
SCS2	£88,000-£162,500	45	47	49	42	38
SCS1	£65,000-£117,800	167	158	163	158	157
Total		**220**	**213**	**221**	**207**	**202**

Staff expenditure

(This information is subject to audit)

Staff expenditure comprises:

	Permanently employed staff	Others	Ministers	Special Advisers	2017-18 Total	2016-17 Total
	£000	£000	£000	£000	£000	£000
Wages and salaries	2,109,877	91,470	211	101	2,201,659	2,191,344
Employers' National Insurance	200,978	379	23	13	201,393	183,618
Superannuation and pension costs	416,857	(49)	-	20	416,828	411,371
Total	**2,727,712**	**91,800**	**234**	**134**	**2,819,880**	**2,786,333**
Less recoveries in respect of outward secondments	(1,332)	-	-	-	(1,332)	(2,057)
Total net costs	**2,726,380**	**91,800**	**234**	**134**	**2,818,548**	**2,784,276**

Wages and salaries includes a severance payment of £7,167 made to one of our Special Advisers.

2016-17 total net costs have been restated due to the removal of 'other recoveries of staff costs'

	Charged to staff budget	Charged to Capital budgets	Total
	£000	£000	£000
Core department	2,603,464	4,000	2,607,464
ALBs	216,416	-	216,416
Total	**2,819,880**	**4,000**	**2,823,880**

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as 'alpha' are unfunded multi-employer defined benefit schemes. However, it's not possible to identify our share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office (www.civilservicepensionscheme.org.uk)

For 2017-18, we paid employer contributions of £414.4 million to the PCSPS (2016-17: £409.6 million). These were at one of four rates in the range 20.0% to 24.5% of pensionable pay, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Outstanding contributions of £43.8 million (2016-17: £42.9 million) were payable to the Civil Superannuation Vote at 31 March 2018 and are included in trade payables and other liabilities (see note 15).

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. In total we paid employers contributions of £2.4 million (2016-17: £1.7 million) to three appointed stakeholder pension providers. Employer contributions are age-related and ranged from 8% to 14.75%. We also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £0.1 million, 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump-sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the reporting period date were £0.3 million. There were no prepaid contributions at that date.

In 2017-18, 90 people (2016-17: 138 people) retired early on ill-health grounds. The total additional accrued pension liabilities in the year were £0.080 million (2016-17: £0.133 million).

Reporting of Civil Service and other compensation schemes - exit packages

(This information is subject to audit)

Table 1: 2017-18

	Core department			Departmental group		
Exit package cost band	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**
< £10,000	1	93	**94**	1	96	**97**
£10,001-£25,000	2	303	**305**	2	316	**318**
£25,001-£50,000	2	243	**245**	2	258	**260**
£50,001-£100,000	-	59	**59**	-	64	**64**
£100,001-£150,000	-	7	**7**	-	7	**7**
£150,001-£200,000	-	4	**4**	-	4	**4**
Total number of exit packages	**5**	**709**	**714**	**5**	**745**	**750**
Total cost £000	**113**	**19,230**	**19,343**	**113**	**20,294**	**20,407**

Table 2: 2016-17
Restated

	Core department			Departmental group		
Exit package cost band	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**
< £10,000	1	132	**133**	1	136	**137**
£10,001-£25,000	6	174	**180**	6	201	**207**
£25,001-£50,000	1	120	**121**	1	154	**155**
£50,001-£100,000	-	25	**25**	-	33	**33**
£100,001-£150,000	-	2	**2**	-	3	**3**
£150,001-£200,000	-	1	**1**	-	1	**1**
Total number of exit packages	**8**	**454**	**462**	**8**	**528**	**536**
Total cost £000	**126**	**9,578**	**9,704**	**126**	**11,755**	**11,881**

We've paid redundancy and other departure costs in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. We account for exit costs in full when the early retirement programme becomes binding but actual dates of departure may fall in the following reporting period. Where we've agreed early retirements we, not the Civil Service Pension Scheme, meet the additional costs. Ill-health retirement costs are met by the pension scheme and are not included in the table.

From 22 December 2010, new civil service compensation terms were introduced for Early Release schemes. All voluntary exit costs payable by us are now made in the form of lump-sum payments. Payments made in respect of schemes prior to this date were made as both lump-sum payments and annual compensation payments. The liability in respect of these annual payments is included in other provisions in Note 17.

The comparative figures differ from those disclosed in the 2016-17 accounts as they include top-up payments that have been made following the quashing at Judicial Review of the 2016 amendments to the Civil Service Compensation Scheme.

Reporting the tax arrangements of public sector appointees

All government departments and their arm's length bodies (ALBs) which employ appointees off-payroll for more than 6 months have to report to HM Treasury about the financial arrangement to make sure it is transparent and that the appointee in question is paying the right amount of tax and national insurance.

We have reviewed the way we employ appointees to ensure our processes are robust. We have the right to request assurances, and do so, from the appointees. We can terminate the individual's contract if these assurances are not provided. The tables below outline the off-payroll arrangements for 2017 to 2018.

Table 1: All existing off-payroll engagements, as at 31 March 2018, that were paid more than £245 per day and that lasted longer than 6 months

	Core department	Arm's length bodies	Departmental group
Number of existing engagements as at 31 March 2018	**402**	**86**	**488**
Length of existing engagement:			
Less than a year at time of reporting	195	35	230
Between 1 and 2 years at time of reporting	114	50	164
Between 2 and 3 years at time of reporting	68	1	69
Between 3 and 4 years at time of reporting	25	0	25
4 years or more at the time of reporting	0	0	0

All existing off-payroll engagements, outlined above, have been subject to risk-based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

Table 2: All off-payroll engagements that were new or reached a length of 6 months between 1 April 2017 and 31 March 2018, where they were paid more than £245 per day

	Core department	Arm's length bodies	Departmental group
New engagements, or those that reached 6 months in duration between 1 April 2017 and 31 March 2018	**271**	**102**	**373**
Of which:			
Number assessed as caught by IR35	21	28	49
Number assessed as not caught by IR35	250	74	324
Number engaged directly (via PSC contracted to department) and are on department payroll	-	-	-
Number of engagements reassessed for consistency/ assurance purposes during the year	68	79	147
Number of engagements that saw a change to IR35 status following consistency review	-	-	-

Following a change to the Intermediaries legislation on 6 April 2017, the department and its ALBs now undertake IR35 assessments for all off-payroll workers that are engaged via an intermediary.

IR35 assessments are undertaken by the civil servant closest to the working practices of the off-payroll worker. Assessments are subject to assurance to ensure they have been undertaken in line with HM Revenue and Customs guidance. In the core department this is undertaken by the Tax Centre of Excellence and includes risk based assurance and random sampling.

In addition to the 68 engagements reported as assured in Table 2, the department has assured the IR35 status of a further 170 engagements in the year which are not reported in the table due to lasting less than 6 months or having reached 6 months engaged in a previous financial year. 4 of these engagements saw a change to the IR35 status following the assurance review.

Table 3: Board members and senior officials with significant financial responsibility between 1 April 2017 and 31 March 2018

Number of individuals who are board members and/or senior officials with significant financial responsibility	Core department	Arm's length bodies	Departmental group
on-payroll	55	10	65
off-payroll	-	-	-

Consultancy and temporary staff

(This information is subject to audit)

We occasionally use professional service providers to help with specialist work – including consultancy and contingent labour where it is necessary and prudent to do so. This year we spent £45.3 million on consultancy compared with £47.7 million last year. This was to help us with specific work activities, mainly IT and digital until we could recruit staff on a permanent basis.

Consultancy (£m)	2017-18	2016-17 restated
Core department	34.9	36.1
Arm's length bodies	10.4	11.6
Departmental group	**45.3**	**47.7**

We have restated our 2016-17 consultancy costs to ensure they align with HM Treasury reporting requirements which includes professional services costs.

Temporary (off-payroll) staff (£m)	2017-18	2016-17
Core department	67.1	128.8
Arm's length bodies	10.7	4.0
Departmental group	**77.8**	**132.8**

We have replaced long-term temporary staff engagements with more flexible commercial service contracts.

Departmental group whole time equivalent off-payroll staffing as at 31 March	March 2018	March 2017
Core department	512	450
Arm's length bodies	39	15
Departmental group	**551**	**465**

The departmental group whole time equivalent off-payroll staff numbers relate to the position at the end of the year.

Sickness absence

We recognise the costs associated with high levels of employee sickness absence. Our approach to managing sickness absence is supportive and work-focused. We aim to minimise sickness absence through absence prevention, while supporting employees who are absent to return to work. Our average number of working days lost (AWDL) due to sickness is 6.6 as at February 2018.

Mindful that AWDL by itself is not a sufficient indicator of employee health and wellbeing, this year we have developed a new set of positive metrics against which we can measure the success of our approach. This is discussed in more detail in the Performance report on page 62.

Trade union facility time

DWP Facility time	
Number of trade union representatives	1,641
Number of representatives with trade union facility time (between 1% and 50% of contracted hours)	1,641
Total time spent (hours)	77,189
Cost of facility time	£0.769 million
Total paybill	£2.520 billion
Facility time as a percentage of the department’s annual pay bill	0.03%

Some facility time hours are spent on unpaid trade union activities, but we are still developing the functionality to be able to record these hours separately and provide them as a percentage of the facility time. We are also working to develop a clear recording of the number of FTE trade union representatives.

HSE Facility time	
Number of trade union representatives	65 (63.5 FTE)
Number of representatives with trade union facility time (between 1% and 50% of contracted hours)	65
Total time spent (hours)	7,976
Cost of facility time	£0.156 million
Facility time as a percentage of the department’s annual pay bill	0.11%
Time spent on paid trade union activities as a percentage of total paid facility time hours	5.12%

Diversity and inclusion (including Public Sector Equality Duty – employees)

Our aim is be the most inclusive employer in the UK. We are dedicated to building a diverse workforce that respects and celebrates differences in ethnicity, gender, age, national origin, disability, sexual orientation, religion or belief and social background.

We are committed to fostering an inclusive environment that values the different perspectives and experiences of each and every individual. Our aim is to make sure these commitments are reflected in our daily working practices with all people using our services, colleagues and partners.

In September 2017 we published a Diversity and Inclusion action plan and launched a year-long campaign called ‘I can be me in DWP’, supported by champions from across the department. Our target areas include recruitment and selection, performance management, talent, bullying and harassment, and leadership. Our key diversity and inclusion challenges in the coming years are to attract greater diversity into the Senior Civil Service (SCS) where we are under-represented in terms of women, people from Black, Asian and Minority Ethnic groups (BAME) and disabled people. We have established targets for these groups in order to meet the requirements of the Civil Service Diversity and Inclusion Strategy.

We are committed to building inclusive leadership at all levels, and in 2018-19 DWP will continue work on the civil service shared ambition of becoming the most inclusive employer by 2020.

Some of our key achievements as an employer in 2017-18 include:

- setting new entrant Senior Civil Servant representation targets to 2025 for Black, Asian and Ethnic Minority (13%), disabled (12%) and women (50%)
- increasing our inclusion and fair treatment score in the annual People Survey – this has improved from 77% in 2015 to 80% in 2017 – this is 3 percentage points higher than the civil service benchmark
- continuing our work to improve recruitment practices throughout DWP, introducing greater diversity into Senior Civil Service selection panels. We have also continued to trial new recruitment methods and techniques including strength based interviews and greater diversity in panels
- producing a gender parity report to provide insight into barriers to progression for women and delivered an inclusive DWP conference focused on enhancing opportunities for women in attaining senior leadership roles
- continuing the 'I can be me in DWP' campaign helping people to talk about inclusion, share their individual stories and understand what being included feels like for different people
- extending support for participants on the Positive Action Pathway programme by aligning our mainstream offer with the positive action offer more closely

We continue to encourage individuals to voluntarily share their personal diversity information and promote the benefits of gathering this data. However, not every member of staff is willing to share their details and the tables below only include colleagues who have done so. We are taking further action to create an environment where more of our people feel content to indicate their diversity, including their sexual orientation and religious beliefs. (Information on age, marriage and civil partnership, and pregnancy and maternity is also captured via a central HR recording system, but no information on gender reassignment is currently captured centrally).

Staff diversity by gender (core department)		**March 2016**	**March 2017**	**March 2018**
Workforce	Women %	68.4	67.3	67.0
Senior Civil Servants	Women %	38.9	39.2	40.0
Ministers	Women %	33.3	33.3	50.0
Non-executive members	Women %	25.0	25.0	30.0
Executive team	Women %	22.2	33.3	40.0

The proportion of women is below the civil service average for the Senior Civil Service grade where we are 3.1% below the December 17 average of 43.1%. In 2017 our gender champion commissioned a comprehensive gender parity survey to investigate barriers to women in reaching senior roles. To improve our representation rates and the opportunities for women in reaching senior roles we will take forward the recommendations from this report during 2018.

Staff diversity by declared disability (core department)		March 2016	March 2017	March 2018
Workforce	Disabled %	7.0	8.7	7.5
Senior Civil Servants	Disabled %	3.0	6.1	6.0

As at 31 March 2018 the proportion of employees who had shared information about their disability was 90.5%. At Senior Civil Service grade DWP is above the December 17 civil service average of 3.8%. DWP is recognised as a **Disability Confident Leader** demonstrating the departmental commitment to attracting, recruiting and retaining disabled people, and supporting them in achieving their full potential.

Staff diversity by declared BAME ethnicity (core department)		March 2016	March 2017	March 2018
Workforce	BAME %	11.6	12.2	12.7
Senior civil servants	BAME %	5.4	4.9	5.2

As at 31 March 2018 the proportion of employees who had shared information about their ethnicity was 76.6%.

The proportion of BAME staff is above the March 2017 civil service average of 11.6%. The numbers fall in grades higher executive officer to grade 6, but at Senior Civil Servant grade representation is the same as the civil service December 17 average.

We take our responsibilities under the **Public Sector Equality Duty** very seriously. Equality Analysis is embedded into all our decision making processes and equality data is used to monitor the impact of our policies and procedures.

The **gender pay gap** figures for all large UK employers were published for the first time before the end of March 2018. These publications provide unprecedented transparency of the difference between men's and women's average earnings, generate debate and encourage employers to work to close the pay gap.

At DWP, we have mechanisms in place to ensure that men and women are paid equally for the same jobs, but a gender gap exists as a result of the way we are structured and the composition of our workforce. We employ more women than men, but we have a higher representation of men in senior roles. This is something that we are conscious of and taking steps to address, which are discussed below.

Our mean 5.3% and median 0.0% gender pay gaps compare favourably with the wider civil service, but the fact that there is a gender pay gap in our department shows there is still more work to do. In our more junior grades, where we have a higher proportion of women the pay gap is in favour of women, however, the more senior grades show the balance the other way which leads to an overall pay gap in favour of men. We are taking steps to have a more inclusive approach and our Diversity and Inclusion (DI) action plan outlined key actions. So far we have:

- completed a gender parity survey to investigate the barriers women face in reaching senior roles and are building recommendations into our D&I plan
- updated guidance to promote gender-neutral language, name-anonymised recruitment and greater diversity of representation on selection panels
- delivered training on diverse panels which has virtually eliminated all-male

panels for Senior Civil Servant posts and limited the impact of unconscious bias in selection exercises

- established a robust governance and exceptions process for single gender short-lists
- provided mentoring, shadowing and coaching to promote progression and improved female representation at senior grades through the DWP Positive Action Pathway programme

More detailed information is available in the DWP Gender Pay Gap report 2017 on **www.gov.uk**

Parliamentary accountability and audit report

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FReM) requires us to prepare a Statement of Parliamentary Supply (SOPS) and supporting notes, to show resource outturn against the Supply Estimate presented to Parliament for each budgetary control limit. The SOPS and related notes are subject to audit.

Statement of Parliamentary Supply

Summary of resource and capital outturn 2017 to 2018

								2017-18	2016-17
				Estimate			Outturn	Voted outturn compared with Estimate: saving/ (excess)	Outturn Total
	SOPS Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total		
		£000	£000	£000	£000	£000	£000	£000	£000
Departmental Expenditure Limit									
- Resource	1.1	5,753,033	484,915	6,237,948	5,624,703	483,333	6,108,036	128,330	6,160,759
- Capital	1.2	462,004	38,696	500,700	395,391	36,994	432,385	66,613	291,621
Annually Managed Expenditure									
- Resource	1.1	77,564,740	102,534,321	180,099,061	75,578,592	101,673,690	177,252,282	1,986,148	172,920,727
- Capital	1.2	171,884	(36,000)	135,884	65,374	(101,937)	(36,563)	106,510	(87,198)
Total budget		**83,951,661**	**103,021,932**	**186,973,593**	**81,664,060**	**102,092,080**	**183,756,140**	**2,287,601**	**179,285,909**
Non-budget									
- Resource	1.1	2,550,435	-	2,550,435	2,121,907	-	2,121,907	428,528	2,027,303
Total		**86,502,096**	**103,021,932**	**189,524,028**	**83,785,967**	**102,092,080**	**185,878,047**	**2,716,129**	**181,313,212**
Total resource budget		**83,317,773**	**103,019,236**	**186,337,009**	**81,203,295**	**102,157,023**	**183,360,318**	**2,114,478**	**179,081,486**
Total resource non-budget		2,550,435	-	2,550,435	2,121,907	-	2,121,907	428,528	2,027,303
Total capital		633,888	2,696	636,584	460,765	(64,943)	395,822	173,123	204,423
Total		**86,502,096**	**103,021,932**	**189,524,028**	**83,785,967**	**102,092,080**	**185,878,047**	**2,716,129**	**181,313,212**

	SOPS Note	2017-18		2017-18	2016-17
		Estimate	Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
		£000	£000	£000	£000
Net cash requirement 2017-18	3	85,330,889	81,928,834	3,402,055	81,253,260

	2017-18 Estimate	2017-18 Outturn	2016-17 Outturn
	£000	£000	£000
Administration costs 2017-18	**899,423**	**799,385**	**879,856**

Explanations of variances between Estimate and Outturn are given on page 151.

SOPS 1. Analysis of net outturn

SOPS 1.1 Analysis of net resource outturn by section

										2017-18	2016-17
							Outturn			Estimate	Outturn
		Administration				Programme		Net total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements	Total
	Gross	Income	Net	Gross	Income	Net	Total				
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limit											
DEL Voted:											
A Operational Delivery	6,812	(459)	6,353	1,994,125	(31,618)	1,962,507	1,968,860	2,028,301	59,441	33,916	1,857,762
B Health and Safety Executive (net)	77,481	-	77,481	46,023	-	46,023	123,504	127,321	3,817	3,817	133,080
C European Social Fund	-	-	-	25,525	(19,105)	6,420	6,420	15,065	8,645	8,645	(1,530)
D Executive Arm's Length Bodies (net)	9,487	-	9,487	81,855	-	81,855	91,342	134,809	43,467	43,467	78,377
E Employment Programmes	-	-	-	406,904	(23,221)	383,683	383,683	358,688	(24,995)	-	575,538
F Support for Local Authorities	-	-	-	261,415	-	261,415	261,415	261,593	178	178	290,404
G Other Programmes	-	-	-	35,812	(101,807)	(65,995)	(65,995)	(63,342)	2,653	2,653	(36,152)
H Other Benefits	-	-	-	170,893	-	170,893	170,893	170,363	(530)	-	162,989
I Departmental operating costs	737,862	(31,798)	706,064	2,056,630	(78,113)	1,978,517	2,684,581	2,720,235	35,654	35,654	2,629,737
Total DEL Voted	**831,642**	**(32,257)**	**799,385**	**5,079,182**	**(253,864)**	**4,825,318**	**5,624,703**	**5,753,033**	**128,330**	**128,330**	**5,690,205**
DEL Non-voted:											
J National Insurance Fund	-	-	-	463,404	(5,671)	457,733	457,733	457,733	-	-	442,737
K Expenditure incurred by the Social Fund	-	-	-	25,600	-	25,600	25,600	27,182	1,582	1,582	27,817
Total DEL Non-voted	**-**	**-**	**-**	**489,004**	**(5,671)**	**483,333**	**483,333**	**484,915**	**1,582**	**1,582**	**470,554**

										2017-18	2016-17
							Outturn			Estimate	Outturn
		Administration			Programme			Net total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements	Total
	Gross	Income	Net	Gross	Income	Net	Total				
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Annually Managed Expenditure											
Voted:											
L Severe Disablement Allowance - Inside Welfare Cap	-	-	-	119,586	-	119,586	119,586	120,501	915	915	234,289
M Industrial Injuries Benefit Scheme - Inside Welfare Cap	-	-	-	840,415	-	840,415	840,415	844,718	4,303	4,303	861,113
N Universal Credit -Inside Welfare Cap	-	-	-	1,930,269	-	1,930,269	1,930,269	2,065,155	134,886	127,816	634,116
O Employment and Support Allowance - Inside Welfare Cap	-	-	-	10,641,567	-	10,641,567	10,641,567	10,814,403	172,836	172,836	10,143,435
P Income Support - Inside Welfare Cap	-	-	-	2,146,507	(7,807)	2,138,700	2,138,700	2,163,065	24,365	24,365	2,231,877
Q Pension Credit - Inside Welfare Cap	-	-	-	5,367,648	-	5,367,648	5,367,648	5,398,075	30,427	30,427	5,665,585
R Financial Assistance Scheme - Inside Welfare Cap	-	-	-	494,726	-	494,726	494,726	1,121,350	626,624	626,624	261,422
S Attendance Allowance - Inside Welfare Cap	-	-	-	5,529,318	-	5,529,318	5,529,318	5,578,857	49,539	49,539	5,482,767
T Personal Independence Payment - Inside Welfare Cap	-	-	-	8,645,683	-	8,645,683	8,645,683	8,940,141	294,458	294,458	5,167,728
U Disability Living Allowance - Inside Welfare Cap	-	-	-	9,379,593	-	9,379,593	9,379,593	9,483,601	104,008	104,008	11,513,613
V Carer's Allowance - Inside Welfare Cap	-	-	-	2,830,015	-	2,830,015	2,830,015	2,916,457	86,442	86,442	2,666,973
W Housing Benefit - Inside Welfare Cap	-	-	-	20,248,522	-	20,248,522	20,248,522	20,526,386	277,864	277,864	21,308,059

										2017-18	2016-17
							Outturn			Estimate	Outturn
	Administration			Programme				Net total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements	Total
	Gross	Income	Net	Gross	Income	Net	Total				
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
X Statutory Maternity Pay - Inside Welfare Cap	-	-	-	2,421,000	-	2,421,000	2,421,000	2,421,000	-	-	2,152,000
Y Non-Contributory Christmas Bonus – Inside Welfare Cap	-	-	-	33,167	-	33,167	33,167	32,977	(190)	-	33,096
Z Jobseeker's Allowance – Outside Welfare Cap	-	-	-	1,442,819	(100)	1,442,719	1,442,719	1,484,867	42,148	42,148	1,611,209
AA Universal Credit –Outside Welfare Cap	-	-	-	1,391,531	-	1,391,531	1,391,531	1,435,763	44,232	44,232	951,174
AB TV Licences for the over 75s – Outside Welfare Cap	-	-	-	654,753	-	654,753	654,753	654,000	(753)	-	627,551
AC Housing Benefit – Outside Welfare Cap	-	-	-	1,438,767	-	1,438,767	1,438,767	1,460,259	21,492	21,492	1,571,464
AD Other benefits – Outside Welfare Cap	-	-	-	108,070	-	108,070	108,070	106,438	(1,632)	-	103,282
AE Other Expenditure – Outside Welfare Cap	-	-	-	(83,885)	-	(83,885)	(83,885)	(5,206)	78,679	78,679	40,099
AF Other Expenditure EALBs (Net) – Outside Welfare Cap	-	-	-	6,428	-	6,428	6,428	1,933	(4,495)	-	5,059
Total AME Voted	**-**	**-**	**-**	**75,586,499**	**(7,907)**	**75,578,592**	**75,578,592**	**77,564,740**	**1,986,148**	**1,986,148**	**73,265,911**
Non-voted:											
AG Incapacity Benefit – Inside Welfare Cap	-	-	-	8,929	-	8,929	8,929	4,875	(4,054)	-	14,895
AH Employment and Support Allowance – Inside Welfare Cap	-	-	-	4,711,328	-	4,711,328	4,711,328	4,801,741	90,413	86,359	4,687,009
AI Expenditure incurred by the Social Fund – Inside Welfare Cap	-	-	-	2,157,352	-	2,157,352	2,157,352	2,564,493	407,141	407,141	2,087,406
AJ Maternity Allowance – Inside Welfare Cap	-	-	-	427,424	-	427,424	427,424	435,461	8,037	8,037	436,458

										2017-18	2016-17
							Outturn			Estimate	Outturn
			Administration			Programme		Net total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements	Total
	Gross	Income	Net	Gross	Income	Net	Total				
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
AK Bereavement Benefits –Inside Welfare Cap	-	-	-	502,552	-	502,552	502,552	522,209	19,657	19,657	557,338
AL Other Contributory Benefits -Inside Welfare Cap	-	-	-	(53,987)	-	(53,987)	(53,987)	124,511	178,498	178,498	126,430
AM Jobseeker's Allowance – Outside Welfare Cap	-	-	-	224,162	103	224,265	224,265	242,439	18,174	18,174	264,268
AN State Pension – Outside Welfare Cap	-	-	-	93,695,827	-	93,695,827	93,695,827	93,838,592	142,765	142,765	91,481,012
Total AME non-voted	-	-	-	**101,673,587**	**103**	**101,673,690**	**101,673,690**	**102,534,321**	**860,631**	**860,631**	**99,654,816**
Total AME	**-**	**-**	**-**	**177,260,086**	**(7,804)**	**177,252,282**	**177,252,282**	**180,099,061**	**2,846,779**	**2,846,779**	**172,920,727**
Non-budget resource											
Voted:											
AO Cash paid in to the Social Fund	-	-	-	2,121,907	-	2,121,907	2,121,907	2,550,435	428,528	428,528	2,027,303
	-	**-**	**-**	**2,121,907**	**-**	**2,121,907**	**2,121,907**	**2,550,435**	**428,528**	**428,528**	**2,027,303**
Total resource	**831,642**	**(32,257)**	**799,385**	**184,950,179**	**(267,339)**	**184,682,840**	**185,482,225**	**188,887,444**	**3,405,219**	**3,405,219**	**181,108,789**

SOPS 1.2 Analysis of net capital outturn by section

						2017-18	2016-17
	Outturn					Estimate	Outturn
	Gross	Income	Net	Net	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements	Net
	£000	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limit							
Voted:							
A Operational delivery	345	(232)	113	73	(40)	-	1,413
B Health and Safety Executive (net)	8,709	-	8,709	9,201	492	492	10,709
D Executive arms length bodies (net)	664	-	664	(3,444)	(4,108)	-	4,450
E Employment programmes	-	-	-	-	-	-	(691)
G Other programmes	83,600	-	83,600	126,304	42,704	42,704	79,500
I Departmental operating costs	330,256	(27,951)	302,305	329,870	27,565	23,417	157,801
Total	**423,574**	**(28,183)**	**395,391**	**462,004**	**66,613**	**66,613**	**253,182**
Non -Voted:							
K Expenditure incurred by the Social Fund	37,062	(68)	36,994	38,696	1,702	1,702	38,439
Total	**37,062**	**(68)**	**36,994**	**38,696**	**1,702**	**1,702**	**38,439**
Spending in Annually Managed Expenditure							
Voted:							
N Universal Credit - Inside Welfare Cap	**39,879**	**-**	**39,879**	**101,393**	**61,514**	**61,514**	**-**
AA Universal Credit - Outside Welfare Cap	25,495	-	25,495	70,491	44,996	44,996	-
Total	**65,374**	**-**	**65,374**	**171,884**	**106,510**	**106,510**	**-**
Non-Voted:							
AI Expenditure incurred by the Social Fund - Inside Welfare Cap	**(101,937)**	**-**	**(101,937)**	**(36,000)**	**65,937**	**65,937**	**(87,198)**
AL Other Contributory Benefits - Inside Welfare Cap	**44,068**	**(44,068)**	**-**	**-**	**-**	**-**	**-**
Total	**(57,869)**	**(44,068)**	**(101,937)**	**(36,000)**	**65,937**	**65,937**	**(87,198)**
Total	**468,141**	**(72,319)**	**395,822**	**636,584**	**240,762**	**240,762**	**204,423**

SOPS 2. Reconciliation of outturn to net operating expenditure

Total resource outturn in Statement of Parliamentary Supply		SOPS Note	2017-18 Outturn £000	2016-17 Outturn £000
	Budget	1.1	183,360,318	179,081,486
	Non-Budget	1.1	2,121,907	2,027,303
	Total resource		**185,482,225**	**181,108,789**
Add:	Capital Grants		(43,032)	(37,409)
	Capital Research and development		2,203	2,525
	PFI Adjustment		39,324	34,427
			185,480,720	**181,108,332**
Less:	Income payable to the Consolidated Fund	4	(15,500)	(20,040)
	Cash paid to the Social Fund – Voted		(2,121,907)	(2,027,303)
	Non-Budget			
Net operating costs in Consolidated Statement of Comprehensive Net Expenditure			**183,343,313**	**179,060,989**

SOPS 3. Reconciliation of net resource outturn to net cash requirement

		Estimate	Outturn	2017-18 Net total outturn compared with Estimate: saving/(excess)
	SOPS Note	£000	£000	£000
Net resource outturn	1.1	188,887,444	185,482,225	3,405,219
Capital:				
Adjustment for capital outturn	1.2	636,584	395,822	240,762
Accrual adjustments:				
Non-cash items		(2,375,077)	(1,958,714)	(416,363)
Changes in working capital other than cash		1,000,000	(130,890)	1,130,890
Utilisation of provisions		241,476	225,963	15,513
Adjustments for arm's length bodies:				
Voted resource and capital		(269,820)	(230,647)	(39,173)
Cash grant in aid		232,214	237,155	(4,941)
Adjustment of non-voted budget		(103,021,932)	(102,092,080)	(929,852)
Net cash requirement of core department		**85,330,889**	**81,928,834**	**3,402,055**

SOPS 4. Income and excess funds payable to the Consolidated Fund

In addition to income we retain, we received the following income which is payable to the Consolidated Fund (cash receipts being shown in italics):

		Outturn 2017-18		Outturn 2016-17
	Income	*Receipts*	Income	*Receipts*
	£000	*£000*	£000	*£000*
Income outside the ambit of the estimate	15,500	*23,641*	20,040	*11,349*
Excess cash surrenderable to the Consolidated Fund	65,000	*65,000*	85,000	*85,000*
Total income payable to the Consolidated Fund	**80,500**	***88,641***	**105,040**	***96,349***

Consolidated Fund income shown above does not include any amounts we collect from the Financial Assistance Scheme while acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in our Trust Statement, page 238.

Variances

At the start of each year we estimate our costs for each budget type and we monitor these throughout the year. The size and complexity of our budget, along with economic, environmental and social changes, means there will inevitably be some variances for our Estimates. Significant variances are:

	Limit	Outturn	Variance (Over)/ Under	Explanation of variance
Estimate Line	**£000**	**£000**	**£000**	
Voted Expenditure DEL				
Executive arm's length bodies (Net) - Resource	134,809	91,342	43,467	This variance is due to an error in the production of the Supplementary Estimate where ALB income was not recorded against this Estimate category.
Other Programmes - Capital	126,304	83,600	42,704	NEST Loan requirements have reduced due to achieving a higher than forecast revenue from NEST pension scheme members. Efficiencies have also been achieved by increased use of online services for employers and members. In addition DWP has maintained its full SR15 funding limit against this category at the Supplementary Estimate in recognition of uncertainty over Capital outturn during 2017-18.
Voted Expenditure AME				
Financial Assistance Scheme - Resource	1,121,350	494,726	626,624	The reasons for the decrease to cash flows is due to a higher mortality rate resulting in a decrease in the estimated total FAS population.
Other Expenditure - Outside the Welfare Cap - Resource	(5,206)	(83,885)	78,679	This is a result of reductions to the Remploy pension scheme deficit amounting to £78m.
Universal Credit - Inside the Welfare Cap - Capital	101,393	39,879	61,514	Funding agreed at the Supplementary Estimate included a margin to reflect the uncertainty in outturn due to change in policy for Universal Credit Advances implemented in January 2018 which saw the maximum award double from 50% of indicative assessment period to 100% and repayment period increase from six to twelve months. The impact of these changes could not be fully predicted at the time of Supplementary Estimate production.
Universal Credit - Outside the Welfare Cap - Capital	70,491	25,495	44,996	
Non Voted Expenditure AME				
Expenditure incurred by the Social Fund - Resource	2,564,493	2,157,352	407,141	The main reason is due to the expenditure on Cold Weather payments being lower than provision. The weather is inherently difficult to predict therefore provision always includes a margin.
Expenditure incurred by the Social Fund - Capital	(36,000)	(101,937)	65,937	Recoveries of Social Fund loans higher than anticipated.
Other Contributory Benefits - Resource	124,511	(53,987)	178,498	The variance represents an adjustment to the impairment for Tax Credits transferred in 2016-17. Debt was transferred at a higher rate of impairment than the rate we impair at, which is representative of better rates of recovery for our benefit overpayment receivables. This adjustment was not agreed at the time of the Supplementary Estimate.
Voted Expenditure Non-budget				
Cash paid in to the Social Fund – Resource	2,550,435	2,121,907	428,528	Cold Weather payments were lower than anticipated at the time the funding was finalised in the Supplementary Estimate and loan recoveries were higher than expected. Consequently there was a reduced cash requirement to be paid into the fund.

Core Tables

(This information is not subject to audit)

Table 1: Public spending for the Department for Work and Pensions

	2013-14 Outturn £ million	2014-15 Outturn £ million	2015-16 Outturn £ million	2016-17 Outturn £ million	2017-18 Outturn £ million	2018-19 Plans £ million	2019-20 Plans £ million
Resource DEL							
Section A: Operational Delivery	2,863	2,188	1,814	1,862	1,969	1,992	1,575
Section B: Health and Safety Executive (Net)	152	136	135	133	124	122	106
Section C: European Social Fund	(3)	-	18	(2)	6	15	-
Section D: Executive Arm's Length Bodies (Net)	354	348	152	78	91	83	67
Section E: Employment Programmes	1,013	954	760	572	384	375	509
Financial Assistance Scheme	153	-	-	-	-	-	-
Section F: Support for Local Authorities	644	536	329	290	261	261	275
Section G: Other Programmes	62	50	(20)	(36)	(66)	(62)	(20)
Section H: Other Benefits	212	206	157	163	171	170	133
Section I: Departmental operating costs	1,508	2,146	2,571	2,630	2,685	2,709	2,551
Section J: National Insurance Fund	611	547	526	443	458	458	352
Section K: Expenditure incurred by the Social Fund	37	33	30	28	26	26	35
Total Resource DEL	**7,606**	**7,145**	**6,473**	**6,161**	**6,108**	**6,150**	**5,583**
Of which:							
Staff costs	2,995	2,772	2,709	2,785	2,829	2,812	2,393
Purchase of goods and services	2,228	2,408	2,263	2,050	1,841	1,950	1,921
Income from sales of goods and services	(219)	(189)	(194)	(206)	(190)	(195)	(204)
Current grants to local government (net)	908	724	485	457	474	482	408
Current grants to persons and non-profit bodies (net)	521	505	343	267	277	499	169
Current grants abroad (net)	(139)	(282)	(348)	4	(19)	(245)	(400)
Subsidies to private sector companies	-	-	-	-	-	-	93
Subsidies to public corporations	120	111	42	46	42	46	40
Rentals	693	652	668	640	677	720	654
Depreciation 2	183	176	183	156	187	165	155
Change in pension scheme liabilities	-	-	-	9	80	15	-
Other resource	317	267	322	(47)	(89)	(99)	353
Resource AME 3							
Section M: Severe Disablement Allowance - Inside Welfare Cap	860	735	470	234	120	105	115
Section N: Industrial Injuries Benefits Scheme - Inside Welfare Cap	901	908	892	861	840	854	853

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn £ million	Outturn £ million	Outturn £ million	Outturn £ million	Outturn £ million	Plans £ million	Plans £ million
Section O: Universal Credit - Inside Welfare Cap	6	56	34	634	1,930	6,315	(2,570)
Section P: Employment and Support Allowance - Inside Welfare Cap	6,898	8,726	9,815	10,143	10,642	9,932	10,464
Section Q: Income Support - Inside Welfare Cap	3,583	2,893	2,539	2,232	2,139	1,750	2,000
Section R: Pension Credit - Inside Welfare Cap	7,042	6,576	6,079	5,666	5,368	4,998	5,292
Section S: Financial Assistance Scheme - Inside Welfare Cap	284	688	2,675	261	495	126	268
Section T: Attendance Allowance - Inside Welfare Cap	5,360	5,422	5,490	5,483	5,529	5,757	6,041
Section U: Personal Independence Payment - Inside Welfare Cap	165	1,571	3,012	5,168	8,646	11,321	12,412
Section V: Disability Living Allowance - Inside Welfare Cap	13,763	13,798	13,233	11,514	9,380	7,805	5,311
Section W: Carer's Allowance - Inside Welfare Cap	2,088	2,319	2,545	2,667	2,830	3,206	3,326
Section X: Housing Benefit - Inside Welfare Cap	23,701	23,742	21,793	21,308	20,249	19,004	20,541
Section Y: Statutory Maternity Pay - Inside Welfare Cap	2,258	2,391	2,532	2,152	2,421	2,520	2,620
Section Z: Non-contributory Christmas Bonus - Inside Welfare Cap	-	33	36	33	33	33	30
Section AA: Other Expenditure - Inside Welfare Cap	-	-	-	-	-	(1)	-
Section AB: Jobseekers Allowance - Outside Welfare Cap	3,812	2,696	2,004	1,611	1,443	1,206	2,541
Section AC: Universal Credit - Outside Welfare Cap	-	-	457	951	1,392	1,712	-
Section AD: TV Licences for the over 75s - Outside Welfare Cap	606	612	622	628	655	468	247
Section AE: Housing Benefit - Outside Welfare Cap	-	-	1,808	1,571	1,439	1,450	2,186
Section AF: Other Benefits - Outside Welfare Cap	259	107	98	103	108	115	118
Section AG: Other Expenditure - Outside Welfare Cap	11	(13)	28	40	(84)	(8)	-
Section AH: Other Expenditure EALBs (net) - Outside Welfare Cap	(2)	(1)	(4)	5	6	2	-
Section AI: Incapacity Benefit - Inside Welfare Cap	1,193	245	62	15	9	-	(1)
Section AJ: Employment and Support Allowance - Inside Welfare Cap	3,539	4,101	4,457	4,687	4,711	4,611	4,194
Section AK: Expenditure incurred by the Social Fund - Inside Welfare Cap	2,216	2,125	2,004	2,087	2,157	2,147	2,105
Section AL: Maternity Allowance - Inside Welfare Cap	400	417	441	436	427	448	495
Section AM: Bereavement benefits - Inside Welfare Cap	583	571	569	557	503	496	494

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn £ million	Outturn £ million	Outturn £ million	Outturn £ million	Outturn £ million	Plans £ million	Plans £ million
Section AN: Other Contributory Benefits - Inside Welfare Cap	123	125	128	126	(54)	124	122
Section AO: Jobseekers Allowance - Outside Welfare Cap	527	369	310	264	224	302	361
Section AP: State Pension - Outside Welfare Cap	82,897	86,428	89,275	91,481	93,696	96,507	100,189
Total Resource AME	**163,072**	**167,639**	**173,400**	**172,921**	**177,252**	**183,307**	**179,754**
Of which:							
Staff costs	-	-	-	-	-	7	-
Purchase of goods and services	-	-	-	13	16	3	-
Current grants to local government (net)	23,702	23,740	23,600	22,880	21,687	20,454	22,727
Current grants to persons and non-profit bodies (net)	138,130	142,225	146,422	148,917	153,307	162,017	156,438
Depreciation 2	(112)	(82)	(123)	(15)	(200)	(119)	36
Take up of provisions	288	796	2,631	287	1,512	119	267
Release of provision	(156)	(184)	(301)	(203)	(229)	(223)	(219)
Change in pension scheme liabilities	-	-	7	7	(78)	-	-
Other resource	1,220	1,144	1,164	1,036	1,238	1,049	505
Total Resource Budget	**170,679**	**174,783**	**179,873**	**179,081**	**183,360**	**189,457**	**185,337**
Of which:							
Depreciation 2	70	93	60	141	(14)	46	191
Capital DEL							
Section A: Operational Delivery	15	12	4	1	-	-	2
Section B: Health and Safety Executive (net)	9	8	9	11	9	8	8
Section D: Executive Arm's Length Bodies (net)	3	3	1	4	1	2	1
Section E: Employment Programmes	6	(4)	(3)	(1)	-	-	-
Section G: Other Programmes	60	94	67	80	84	124	101
Section I: Departmental operating costs	97	95	75	158	302	83	67
Section K: Expenditure incurred by the Social Fund	47	44	40	38	37	38	48
Section L: Consolidated Fund Extra Receipts	-	-	(4)	-	-	-	-
Total Capital DEL 4	**237**	**251**	**188**	**292**	**432**	**255**	**227**
Of which:							
Staff costs	3	2	2	2	2	2	-
Purchase of goods and services	1	1	1	-	-	-	4
Capital grants to persons & non-profit bodies (net)	-	-	-	-	-	-	-
Capital grants to private sector companies (net)	-	(2)	-	-	-	-	-
Capital support for public corporations	-	-	67	80	84	124	75
Purchase of assets	126	116	98	178	339	90	90
Income from sales of assets	(6)	(2)	(19)	(6)	(30)	(1)	(16)
Net lending to the private sector and abroad	53	40	37	36	37	38	48
Other capital	60	94	1	2	1	1	26

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn £ million	**Outturn £ million**	**Outturn £ million**	**Outturn £ million**	**Outturn £ million**	**Plans £ million**	**Plans £ million**
Capital AME 4							
Section N: Industrial Injuries Benefits Scheme - Inside Welfare Cap	-	-	-	-	-	-	-
Section O: Universal Credit - Inside Welfare Cap	1	-	-	-	40	77	-
Section P: Employment and Support Allowance - Inside Welfare Cap	-	-	-	-	-	-	-
Section Q: Income Support - Inside Welfare Cap	-	-	-	-	-	-	-
Section R: Pension Credit - Inside Welfare Cap	-	-	-	-	-	-	-
Section AB: Jobseekers Allowance - Outside Welfare Cap	1	-	-	-	-	-	-
Section AC: Universal Credit - Outside Welfare Cap	-	-	-	-	25	21	-
Section AG: Other Expenditure - Outside Welfare Cap	-	-	-	-	-	148	-
Section AK: Expenditure incurred by the Social Fund - Inside Welfare Cap	(136)	(124)	(148)	(87)	(102)		-
Section AO: Jobseekers Allowance - Outside Welfare Cap	-	-	-	-	-	-	-
Total Capital AME 4	**(134)**	**(124)**	**(148)**	**(87)**	**(37)**	**246**	**-**
Of which:							
Net lending to the private sector and abroad	(134)	(124)	(148)	(48)	8	246	-
Other capital	-	-	-	(39)	(44)	-	-
Total Capital Budget	**102**	**126**	**39**	**204**	**396**	**501**	**227**
Total Departmental Spending 5	**170,711**	**174,816**	**179,852**	**179,145**	**183,770**	**189,912**	**185,372**
Of which:							
Total DEL	7,661	7,220	6,477	6,296	6,354	6,239	5,654
Total AME	163,050	167,597	173,375	172,849	177,416	183,672	179,718

1. This table represents DEL for resource and capital, set for each year in the spending review process (amended to incorporate transfers of functions to and from other government departments as they have arisen).
2. Includes impairments.
3. AME limits are set as part of the Spring Statement and Autumn Budget process.
4. Expenditure on tangible and intangible fixed assets net of sales.
5. Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly total departmental expenditure limit (DEL) is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL.
6. Table 1 is produced automatically from the HM Treasury System (Online System for Central Accounting and Reporting (OSCAR)) which is used by all central government departments to record their spending and plans. At 31 March 2018, OSCAR reflects the position agreed at Spring Statement 2018. In the event of structural changes or Machinery of Government transfers this

may not match the outturn in previous years' financial statements and some spending may also appear on different lines.

7. Expenditure is stated net of income from sales of goods and services.

8. During the financial year 2017-18 DWP adopted the HMT Common Chart of Accounts. The implementation process for doing so identified a small number of account code mappings between our former accounting system and OSCAR used in prior years which were agreed with HMT to be amended in the 2017-18 core tables to allow better comparability for readers.

9. Totals may not sum due to rounding.

10. Section letters may not match the SoPS section letters due to additional line items appearing in the SoPS.

Table 2: Administration budget for the Department for Work and Pensions

							£ Millions
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
	Outturn	**Outturn**	**Outturn**	**Outturn**	**Outturn**	**Plans**	**Plans**
Resource DEL							
Section A: Operational Delivery	244	192	41	21	6	8	16
Section B: Health and Safety Executive (net)	105	81	82	83	77	81	64
Section D: Executive arm's length bodies (net)	18	19	28	10	9	12	10
Section I: Departmental operating costs	717	596	684	766	706	728	706
Total administration budget	**1,084**	**888**	**835**	**880**	**799**	**828**	**796**
Of which:							
Staff costs	476	448	384	441	414	408	299
Purchase of goods and services	406	361	390	379	351	350	344
Income from sales of goods and services	(79)	(54)	(47)	(59)	(75)	(87)	(67)
Current grants to local government (net)	-	-	-	-	-	-	6
Rentals	62	55	86	83	67	72	138
Depreciation[2]	198	55	29	19	32	86	76
Other resource	22	22	(8)	15	10	-	-

1. This table represents DEL administration expenditure, set for each year in the spending review process (amended to incorporate transfers of functions to and from other government departments as they have arisen).
2. Depreciation includes impairments.
3. Table 2 is produced automatically from the HM Treasury System (Online System for Central Accounting and Reporting (OSCAR)) which is used by all central government departments to record their spending and plans. At 31 March 2018, OSCAR reflects the position agreed at Spring Statement 2018. In the event of structural changes or Machinery of Government transfers this may not match the outturn in previous years' financial statements and some spending may also appear on different lines.
4. During the financial year 2017-18 DWP adopted the HMT Common Chart of Accounts. The implementation process for doing so identified a small number of account code mappings between our former accounting system and OSCAR used in prior years which were agreed with HMT to be amended in the 2017-18 core tables to allow better comparability for readers.
5. Totals may not sum due to rounding.
6. Section letters may not match the SoPS section letters due to additional line items appearing in the SoPS.

Regularity of Expenditure

(This information is subject to audit)

We are custodian of taxpayer's funds and have a duty to Parliament to ensure the regularity and propriety of our activities and expenditure. We manage public funds in line with HM Treasury's Managing Public Money. [5]

The importance of operating with regularity and the need for efficiency, economy, effectiveness and prudence in the administration of public resources to secure value for public money, is the responsibility of our Accounting Officer whose responsibilities are also set out in Managing Public Money. They include responsibility for the propriety and regularity of the public finances for which the accounting officer is answerable.

To discharge this responsibility and ensure our control totals are not breached the following activities are in place:

- formal delegation of budgets
- detailed monitoring of expenditure
- monthly management reporting against control totals

In addition we operate the three lines of defence model which is included in our risk management framework. We have provided details of this in our Governance Statement on page 104.

5 Managing Public Money - www.gov.uk

In 2017-18 we did not breach any of our control totals, details are provided in the Statement of Parliamentary Supply on page 143.

The Comptroller and Auditor General has qualified his regularity opinion on our accounts due to the material level of fraud and error in benefit expenditure since 1988-89. More details on this control issue can be found in our accounting officer's assessment of the system of control and the significant control challenges on page 117.

Parliamentary Accountability Disclosures

Losses and Special Payments[6]

(This information is audited by the Comptroller and Auditor General)

	2017-18				2016-17			
	Core department	Departmental group	Core department	Departmental group	Core department	Departmental group	Core department	Departmental group
	£000	£000	Cases	Cases	£000	£000	Cases	Cases
Losses	434,268	435,498	1,083,249	1,084,810	406,693	408,369	1,107,707	1,109,776
Special Payments	5,228	5,443	6,650	6,662	2,883	3,612	10,333	11,726

Overpayments due to fraud and error are not considered losses until recovery options have been exhausted, for more information please see note 1.12

(i) Losses arising from benefit overpayments, grants and subsidies

	2017-18 £000
Non-recoverable benefit overpayments Where overpayments are non-recoverable we have no legal right to pursue them. These may be overpayments where we are trying to recover under 'common law' or may be official error overpayments that fall under the small overpayments category. As soon as these are identified they are scheduled for write off as we have no authority to pursue.	330,479
Customer fraud We write off overpayments resulting from customer fraud once we've exhausted our debt recovery processes.	7,973
Sanctions When Universal Credit (UC) was first introduced, around 5,000 claimants were under-sanctioned. The department hasn't sought to retrospectively apply sanctions in this instance due to the length of time that has passed since the issue occurred.	1,600
Waiting days Legislative changes made in 2015 introduced 7 waiting days before a claimant's entitlement to UC. Due to a system issue around 54,000 claimants had exceptions applied to this change resulting in a 7 day overpayment. We haven't sought to recover these overpayments as recovery would not be cost effective.	3,190
Duplicate Christmas bonus We sometimes pay duplicate Christmas bonuses because more than one benefit system can generate the payment. This is classed as official error and the department has no legal right to recovery.	373
Social Fund We make low-cost funeral expense payments to people who receive (or whose partners receive) a qualifying benefit or Tax Credit. These are recoverable from the estate of the deceased, but we write most of them off as often there aren't enough assets in the estate. This year we wrote off 25,302 of these payments, with a total value of £36.5 million. Budgeting and Crisis Loans which can't be recovered are written off subject to strict criteria. This year we wrote off 46,939 of these loans, with a total value of £4.4 million. We also wrote off 8,206 irrecoverable overpayments amounting to £1.1 million.	42,118

6 Categories of Losses and Special Payments are explained in HM Treasury's Managing Public Money annexes 4.10 and 4.13 www.gov.uk

(ii) Cash losses

	2017-18 £000
Reimbursement of Child Maintenance overpayments Reimbursements arise when a paying parent has a change in circumstances and, even though they've told us about this change, a delay in implementing the new maintenance assessment leads to an overpayment. We don't recover these overpayments from the parent with care, but we do refund the paying parent.	2,568
Incorrect Child Maintenance payments This is where maintenance is paid to the wrong parent. It normally happens where the paying parent is associated with more than one receiving parent. We don't recover these payments but we do make the payment to the correct parent.	1,433
Flexible Support Fund losses Under the Flexible Support Fund, we give funds to some claimants to buy items to help them to start work. If, after a number of reminders, claimants don't provide receipts, or give us incomplete or incorrect receipts, we treat the funding as a loss.	651
New Enterprise Allowance (NEA) mentoring grant overpayments Mentoring grants were paid to providers to supply mentoring support to NEA claimants. Following a reconciliation of grants paid against the performance of the providers we identified that some grants had been overpaid. 10 of these overpayments have been partially written off as a result of evidence supplied by providers. 2 further grants were written off when the companies involved went into administration.	2,595
Fit for Work The department held a contract with Health Management Limited (HML) to deliver its Fit for Work Assessment Service. Early termination of the contract resulted in a loss due to advance payments made at the start of the contract to allow HML to build the necessary infrastructure to deliver the service which was never used to full capacity.	3,262

(iii) Claims waived or abandoned

	2017-18 £000
Health and Safety Executive receivables These losses represent receivables where companies have gone into liquidation or administration.	1,204

(iv) Constructive losses

	2017-18 £000
Credit Union Expansion Programme (CUEP) We awarded a contract to deliver the Credit Union Expansion Project (CUEP), the aims of the project were to deliver growth through transformation and allow credit unions to become financially sustainable. The supplier's solution included delivery of a banking platform allowing members to receive a range of banking services and benefit from more affordable credit. The supplier was not able to meet all of the original aims and contractual milestones of the project, we therefore terminated the contract with effect from 16 February 2018. Whilst the supplier has not met their contractual agreement, they have delivered a platform that allows credit union members to receive a range of banking services and benefit from more affordable credit. At the end of the contract, this platform was used by three credit unions with a total of approximately 16,500 members. CUEP has also delivered an Automated Loans and Decision tool used by over 70 credit unions and centralised services such as a standardised front facing website. Additionally, CUEP led a number of credit unions to merge, and others to work together, to develop standardised products and deliver local marketing campaigns to increase membership. CUEP also contributed to participating credit unions increasing both their membership and the value of loans made.	27,031

(v) Realised exchange rate fluctuation

	2017-18 £000
European Social Fund (ESF) exchange rate loss	6,420
We carry an exchange rate risk on ESF transactions due to timing differences between paying out claims in sterling and reclaiming funding from the European Community (EC) in euros. During the year there were realised exchange rate losses arising from the €65.6 million repayment of the ESF and Youth Employment Initiative annual advances, resulting in a sterling loss of £6.2 million. There was also a loss on the receipt of EC funding of €16.3 million, creating £0.3 million additional sterling losses.	

(vi) Special payments – ex gratia payments

	2017-18 £000
Civil Service Compensation Scheme	1,062
Payments made to civil servants dismissed on efficiency grounds are subject to rules set out in the Civil Service Compensation Scheme. In July 2017 a judicial review ruled against changes to the scheme due to procedures followed by government when introducing new terms and conditions in the 2016 Scheme. Following this ruling, a full review of all efficiency departures made under the 2016 terms has been completed and recalculated them on pre 2010 terms. The review identified 139 cases where individuals had been overpaid. Due to the time that has lapsed between the payment being made, and because the payment was made and received in good faith, the department has decided not to pursue recoveries in these cases.	

(vii) Other accountability issues

Fraud

Investigations into suspected fraud or abuse by staff are conducted by the Counter Fraud and Investigation team, a dedicated national resource within the Government Internal Audit Agency.

The following all relate to fraud cases where all avenues of recovery have been exhausted.

A total of 26 internal fraud investigations into salary, expenses and other non-benefit losses proved fraud of £0.161 million.

Sixteen investigations into non-contributory and contributory benefits where fraud was proven of £0.200 million.

Five investigations of potential fraud by contractors. The total value of these cases was £0.301 million.

Serious and organised fraud

The Fraud Investigation Service investigates organised and systematic abuse of the benefits system. It concluded 17 investigations with a value of £0.587 million in 2017-18.

Remote Contingent Liabilities

(This information is subject to audit)

These are remotely possible obligations that arise from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within DWP's control.

New Fair Deal Pension arrangements affecting Logistics 17 Contracts

During 2017-18, we entered into a new contract for the provision of office services. Following the re-tender exercise, twenty-one staff, who have previously been departmental employees, were determined to be within scope of the New Fair Deal, second generation transfer regulations, requiring that the contractor provides access to a Public Service Pension scheme. Under the terms of the scheme admission agreement, the department is required to indemnify the pension scheme against any failure by the contractor to meet their obligations under the scheme. The department considers that the probability of an outflow of cash to discharge the liability is remote and does not therefore meet the requirement for disclosure as a contingent liability in accordance with IAS 37.

The liability is unquantifiable because of its enduring nature and the variety and uncertainty surrounding the events that may lead to crystallisation of any remote obligation.

Other Parliamentary Disclosures

In 2016, the UK Government announced that the government would guarantee the following EU funded projects after the UK has left the EU:

a. All structural and investment fund projects signed before the Autumn Statement 2016;

b. Structural and investment fund projects signed after the Autumn Statement and before we leave the EU, so long as they are good value for money and in line with domestic strategic priorities;

c. The payment of awards where UK organisations successfully bid directly to the European Commission on a competitive basis for EU funding projects while we remain in the EU;

d. The current level of agricultural funding under CAP Pillar 1 until 2020. The financial settlement has now been signed-off by both UK and EU Commission negotiators in a draft Withdrawal Agreement and welcomed by the EU-27 at March European council. The guarantee will therefore only be called in the event that the Withdrawal Agreement is not ratified.

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 starts a two-year negotiation process between the UK and the EU.

Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result we have disclosed an unquantifiable contingent liability, relating to ESF (see note 20 on page 233).

Please also see note 20 – for details of our 'Her Majesty's Government's (HMG) guarantee for European Union (EU) funded projects' contingent liability.

Peter Schofield CB
Permanent Secretary
26 June 2018

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

Opinion on financial statements

I certify that I have audited the financial statements of the Department for Work and Pensions and of its Departmental Group for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The Departmental Group consists of the core Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2018. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2018 and of the Department's net operating cost and Departmental Group's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, except for the estimated levels of fraud and error in certain benefit expenditure referred to in the basis for the qualified opinion on regularity paragraph, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for the qualified opinion on regularity

Note 19 to the Accounts records benefit expenditure of £177.5 billion in 2017-18. Within this expenditure the Department estimates:

- overpayments excluding State Pension of £3.78 billion (4.4% of related expenditure); and
- underpayments excluding State Pension of £1.7 billion (2.0% of related expenditure).

Where fraud and error results in overpayments and underpayments the transactions do not conform to the relevant primary legislation specifying benefit entitlement and calculation criteria. The expenditure is therefore irregular. I consider these levels of overpayments and underpayments to be material to my opinion on the accounts.

For State Pension the Department estimates:

- overpayments of £90 million (0.1% of related expenditure); and
- underpayments of £30 million (0.0% of related expenditure).

I consider these levels of overpayments and underpayments to be immaterial to my opinion on the accounts.

I have therefore qualified my opinion on the regularity of benefit expenditure other than State Pension because of:

- the estimated level of overpayments attributable to fraud and error where payments have not been made for the purposes intended by Parliament; and
- the estimated level of overpayments and underpayments in such benefit expenditure which do not conform with the relevant authorities.

My report, which follows on pages 168 to 182, provides further detail of my qualified audit opinion on regularity.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 ‘Audit of Financial Statements of Public Sector Entities in the United Kingdom’. My responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council’s Revised Ethical Standard 2016. I am independent of the Department for Work and Pensions in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the Department for Work and Pensions' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the Department for Work and Pensions' ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future

events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the Department for Work and Pensions and Departmental group and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and

- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Sir Amyas C E Morse
Comptroller and Auditor General

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

Date 28 June 2018

Report by the Comptroller and Auditor General

Fraud and error in benefit expenditure

Introduction

1. The Department for Work & Pensions' (the Department's) total expenditure on benefits in 2017-18 was £177.5 billion, of which £155.1 billion was for benefits paid directly by the Department and £22.4 billion was for Housing Benefit paid on its behalf by local authorities[1]. Benefit expenditure represents 97% of the Department's 2017-18 total net operating costs of £183.0 billion, as recorded in the Department's Annual Report and Accounts.

2. Fraud and error is a significant problem in benefit expenditure. Benefit payments are susceptible to both deliberate fraud and unintended error by claimants and the Department. The Department relies on claimants providing timely and accurate information, particularly when their circumstances change, and the complexity of benefits can cause confusion and genuine error. Overpayments arising from fraud and error increase costs for taxpayers and reduce the public resources available for other purposes. Underpayments mean that households do not get the support they are entitled to. Even where payment errors are later corrected, this can lead to additional administrative work and uncertainty for claimants.

3. This report sets out:

   - the reasons and context for my qualified audit opinion;
   - the trends in and reasons for fraud and error;
   - how the Department is developing a more structured approach to addressing fraud and error, based on a more detailed understanding of the underlying causes; and
   - the challenges in managing increasing benefit debt.

Key findings

4. **I have again qualified my opinion on the regularity of the Department for Work & Pensions' (the Department's) financial statements due to the material level of fraud and error in benefit expenditure.** I exclude State Pension from my qualified opinion as the level of fraud and error is much lower than in other benefits (£0.1 billion of related expenditure of £93.9 billion) (paragraphs 13 to 17, Figure 1).

1 'Total expenditure on benefits' of £177.5 billion represents the latest available forecast for 2017-18 at the time the Department produced the fraud and error estimates, as reflected in note 19 to the accounts. Audited total expenditure on benefits in 2017-18 was £177.2 billion, as reflected in the Consolidated Statement of Comprehensive Net Expenditure.

5. **Benefit overpayments, excluding State Pension, are at their highest estimated rates.** The estimated level of overpayments has increased to 4.4% (£3.7 billion) of related benefit spend (£83.6 billion), from 4.1% (£3.4 billion) in 2016-17 (paragraph 18, Figures 1 and 2).

6. **Estimated rates of fraud and error overpayments have increased across all continuously measured benefits.** The Department has estimated that £115 million of the £300 million increase relates to a change in the maximum time that a person claiming Pension Credit or Housing Benefit can spend abroad, which has reduced from 13 weeks to four. The main causes of overpayments and underpayments vary across the benefits that are measured each year (paragraphs 19 and 24, Figure 4).

7. **Untimely or inaccurate reporting of income and earnings remains the main cause of overpayments due to fraud and error.** This accounts for £1.2 billion of the estimated £3.8 billion total overpayments due to fraud and error. The Department's principal intervention to address this remains matching income that claimants report to the Department to the information held by HM Revenue & Customs. New interventions, including wider use of data to tackle other key causes of fraud and error, such as the amount of capital held, living arrangements and housing, and living abroad and residency, are still under development (paragraphs 23, Figure 4).

8. **Underpayments are at the highest estimated level to date, 1% of total expenditure on benefits.** This means the Department has missed its target for underpayments of 0.9%, based on its preliminary estimate for 2017-18. Excluding State Pension, the estimated level of underpayments has increased to 2.0% (£1.7 billion), from 1.9% (£1.5 billion) in 2016-17. Of the total £1.7 billion of underpayments, official error makes up £470 million and underpayments due to misreporting of income from other benefits, classified as claimant error, make up a further £140 million of this amount (paragraphs 18, 25 to 26, Figures 1, 2 and 4).

9. **The Department is developing a new Fraud, Error and Debt strategy based on its understanding of the main causes of fraud and error.** This strategy includes: taking a risk-based approach to tackling fraud and error; making the best use of data to tackle fraud, error and debt; and helping claimants to provide the right information at the right time. The strategy also sets out how the new Risk Intelligence Service will use the Department's intelligence on claimants to better prioritise its activities to prevent fraud and error. However the Department is yet to set out what reduction in fraud and error it expects to achieve (paragraphs 28 to 29).

10. **The estimated rates of fraud and error in the Department's newer benefits are the highest among annually measured benefits.** Universal Credit has the highest estimated level of overpayments, at 7.2%, while Personal Independence Payment has the highest level of underpayments, at 3.7%. Both benefits are yet to reach their intended levels of spending and claimant numbers. The Department is relying on Universal Credit to contribute to a significant reduction in overall levels of fraud and error, with the business case outlining an expected annual reduction in fraud and error in benefits and Tax Credits of £1.3 billion once Universal Credit is fully rolled out (paragraphs 19, 35 to 40, Figure 3).

11. **The Department faces an increasing challenge in managing debt as people claiming Personal Tax Credits migrate to Universal Credit.** As at 31 March 2018, the value of debt resulting from overpayment of benefits due to claimant fraud or error was £2.7 billion. During 2017-18, £188 million of gross debt transferred to the Department from HM Revenue & Customs as Tax Credits claimants migrated to Universal Credit. An estimated £5.9 billion of gross Tax Credits debt is expected to transfer by 2023, while the timing of the transfer of an additional £0.9 billion has not yet been confirmed (paragraphs 43 to 47).

Recommendations

12. The Department should:

- identify further options to address untimely and inaccurate reporting of income and earnings as its current interventions have not yet achieved a sustainable reduction in the level of fraud and error overpayments related to this risk;
- make better use of intelligence and data in order to prevent fraud and error in more effective ways, including using the data it holds on claimants' income from other benefits;
- take steps to understand the causes of fraud and error in Universal Credit and Personal Independence Payment, and prioritise action on these as claimant numbers increase; and
- as part of its 2018-2022 strategy, clearly set out what reduction in fraud and error it is seeking to achieve and how it will monitor and evaluate progress.

Qualification of the Comptroller and Auditor General's audit opinion on the regularity of benefit expenditure

13. I have qualified my opinion on the regularity of the 2017-18 financial statements of the Department for Work & Pensions (the Department) due to the material level of fraud and error in benefit expenditure, other than State Pension where the level of fraud and error is significantly lower.

14. Under the Government Resources and Accounts Act 2000, I am required to obtain sufficient evidence to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

15. Legislation specifies the entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. Where fraud or error results in an overpayment of benefit to an individual who is not entitled to that benefit, or is paid at a rate that differs from the amount specified in legislation, the transaction does not conform with Parliament's intention and is irregular.

16. In my opinion the overall value of overpayments and underpayments due to fraud and error in benefits other than State Pension remains material by reference to related expenditure, and the qualification of my audit opinion reflects that. I have qualified my opinion on regularity every year since 1988-89 due to a material level of overpayments and underpayments in benefit expenditure.

Estimated level of fraud and error in benefit expenditure

17. In note 19 to the accounts, the Department sets out its estimate of benefit overpayments and underpayments due to fraud and error in 2017-18. **Figure 1** summarises the Department's results. **Figure 2** shows the overpayment and underpayment rates as a percentage of benefit expenditure since 2007-08. It shows the overpayment and underpayment rates for all benefits excluding State Pension separately from the headline rates for all benefits including State Pension reported by the Department in note 19.

18. Benefit overpayments and underpayments, excluding State Pension, are at their highest estimated rates. The estimated level of overpayments has increased to 4.4% (£3.7 billion) of benefit spend, excluding State Pension, from 4.1% (£3.4 billion) in 2016-17. The estimated level of underpayments, excluding State Pension, has increased to 2.0% (£1.7 billion), from 1.9% (£1.5 billion) in 2016-17.

Figure 1

Overpayments and underpayments in benefit expenditure due to fraud and error, 2017-18 compared to 2016-17

The levels of overpayments and underpayments, as a percentage of benefit expenditure, have increased in 2017-18

	2017-18 (£bn)	2016-17 (£bn)	Change (£bn)	2017-18 (%)	2016-17 (%)	Change (%)
Total overpayments	3.8	3.5	0.3 ▲	2.1	2.0	0.1 ▲
Total underpayments	1.7	1.6	0.1 ▲	1.0	0.9	0.1 ▲
State Pension overpayments	0.1	0.1	0.0 ◄►	0.1	0.1	0.0 ◄►
State Pension underpayments	0.0	0.1	-0.1 ▼	0.0	0.1	-0.1 ▼
Overpayments excluding State Pension	3.7	3.4	0.3 ▲	4.4	4.1	0.3 ▲
Underpayments excluding State Pension	1.7	1.5	0.2 ▲	2.0	1.9	0.1 ▲

Notes

1 Fraud and error figures quoted in this report are central estimates (or 'mid-points') within a 95% confidence interval. The range reported by the Department in *Fraud and error in the benefit system: financial year 2017-18 preliminary estimate*, 17 May 2018 reflects the uncertainty within the Department's fraud and error estimates.

2 The 2016-17 comparatives used here, in the Comptroller and Auditor General's certificate and disclosed by the Department in note 19 are taken from *Fraud and error in the benefit system: financial year 2016-17 preliminary estimate*, 18 May 2017, which were the latest available when the 2016-17 accounts were published. The Department published its final estimates for 2016-17 in November 2017.

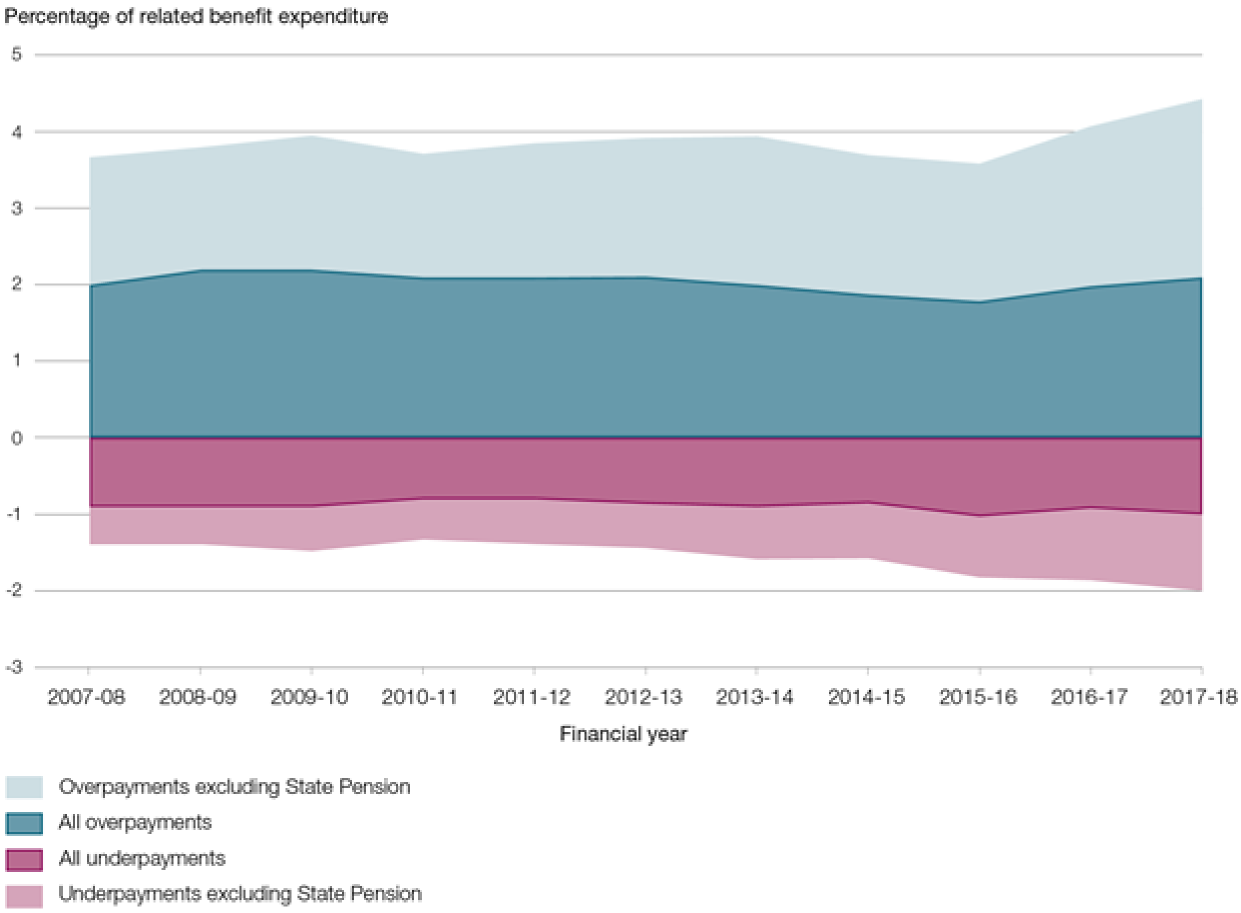
3 State Pension underpayments of £30 million round to £0.0 billion and 0.0% for 2017-18.

Source: Note 19 of the Department for Work & Pensions *Annual Report and Accounts 2017-18*, June 2018

Figure 2

Overpayments and underpayments for all benefits and for all benefits excluding State Pension, 2007-08 to 2017-18

Benefit overpayments and underpayments, excluding State Pension, are at their highest estimated rates



Note

1 All rates included in the above figure are from the Department for Work & Pensions' published statistics on fraud and error in the benefit system. Preliminary results have been used from 2012-13 to 2017-18 as reported in the incorrect payments note of the relevant Department for Work & Pensions' Annual Report and Accounts. Final results have been used for 2006-07 to 2011-12 from the supporting tables accompanying the Department for Work & Pensions' *Fraud and error in the benefit system: financial year 2017-18 preliminary estimates*.

Source: National Audit Office analysis of Department for Work & Pensions data included in the *Fraud and error in the benefit system estimates*

19. The Department measures fraud and error continuously for only six benefits, representing 32% of total benefit expenditure, to support its annual estimate. As **Figure 3** shows, the rate of fraud and error in 2017-18 due to overpayments has increased for five of these benefits. The other is Personal Independence Payment, which is reported for the first time. The most significant proportional increase relates to Universal Credit, for which the estimated rate of overpayments has increased from 4.8% to 7.2%. The rate of underpayments has increased across all continuously measured benefits other than Employment and Support Allowance. Personal Independence Payment has the highest level of underpayments, at 3.7% of expenditure.

Figure 3

Percentage overpayments and underpayments in continuously measured benefits, 2016-17 to 2017-18

Overpayments have increased for continuously measured benefits other than, Personal Independence Payment, which is reported for the first time. Personal Independence Payment has the highest rate of underpayments across all benefits at 3.7% of related expenditure

Benefit	Overpayments			Underpayments		
	Change (%)	2017-18 (%)	2016-17 (%)	Change (%)	2017-18 (%)	2016-17 (%)
Housing Benefit	0.1 ▲	6.5	6.4	0.1 ▲	1.4	1.3
Employment and Support Allowance	0.4 ▲	4.3	3.9	-0.2 ▼	2.6	2.8
Pension Credit	0.6 ▲	5.8	5.2	0.1 ▲	2.4	2.3
Jobseeker's Allowance	0.7 ▲	6.3	5.6	0.7 ▲	1.3	0.6
Universal Credit	2.4 ▲	7.2*	4.8	0.1 ▲	1.3	1.2
Personal Independence Payment	N/A	3.1	N/A	N/A	3.7	N/A

Notes

1 The Department first measured fraud and error in Personal Independence Payment in its *Fraud and error in the benefit system: final 2016 to 2017 estimates first release publication*. The Department uses its preliminary statistics publications to inform its Annual Report and Accounts and, as such, the 2017-18 Annual Report and Accounts is the first that includes a separate estimate of fraud and error in Personal Independence Payment. In the Department's 2016-17 Annual Report and Accounts, Personal Indepedence Payment was included as an 'unreviewed benefit' and was based on a proxy measurement from Disability Living Allowance.

2 Movements marked with an * are noted as statistically significant in the Department's *Fraud and error in the benefit system: financial year 2017-18 preliminary estimates* publication, which compares preliminary 2017-18 statistics with final 2016-17 statistics. The movements in this figure compare preliminary 2017-18 statistics with preliminary 2016-17 statistics, in line with note 19 of the Department's Annual Report and Accounts. The reporting of statistically significant movements in the publication does not automatically translate to the analysis of movements shown in this figure.

Source: National Audit Office analysis of Department for Work & Pensions Tables: *Fraud and error in the benefit system: financial year 2017-18 preliminary estimates*, 17 May 2018.

20. A further five benefits are measured periodically, including State Pension (61% of benefit expenditure), while fraud and error in some benefits has never been measured (7% of benefit expenditure). This means that data on fraud and error in large benefit streams can be as much as 20 years old. Other benefits are assessed using what is known about measured benefits in order to estimate the level of fraud and error. The absence of up-to-date information on fraud and error rates in large benefit streams creates a risk that the Department is not targeting its activities to reduce fraud and error effectively.

21. During 2017-18 the Department began to respond to my recommendations on this risk. It has developed a model that considers a number of factors, including: the size of each benefit's spend; the future strategic importance of each benefit; and the complexity of the benefit. This model will support a rationale for which benefits it will measure, and how frequently. The Department has committed to reviewing this rationale annually to ensure the way it measures fraud

and error provides sufficient information across its activities on which to base business decisions. Any changes to which benefits are measured will have a two-year lead time, due to the way in which measurement takes place and a need to ensure sufficient staff are trained to undertake the measurement exercise.

The Department’s approach to tackling fraud and error

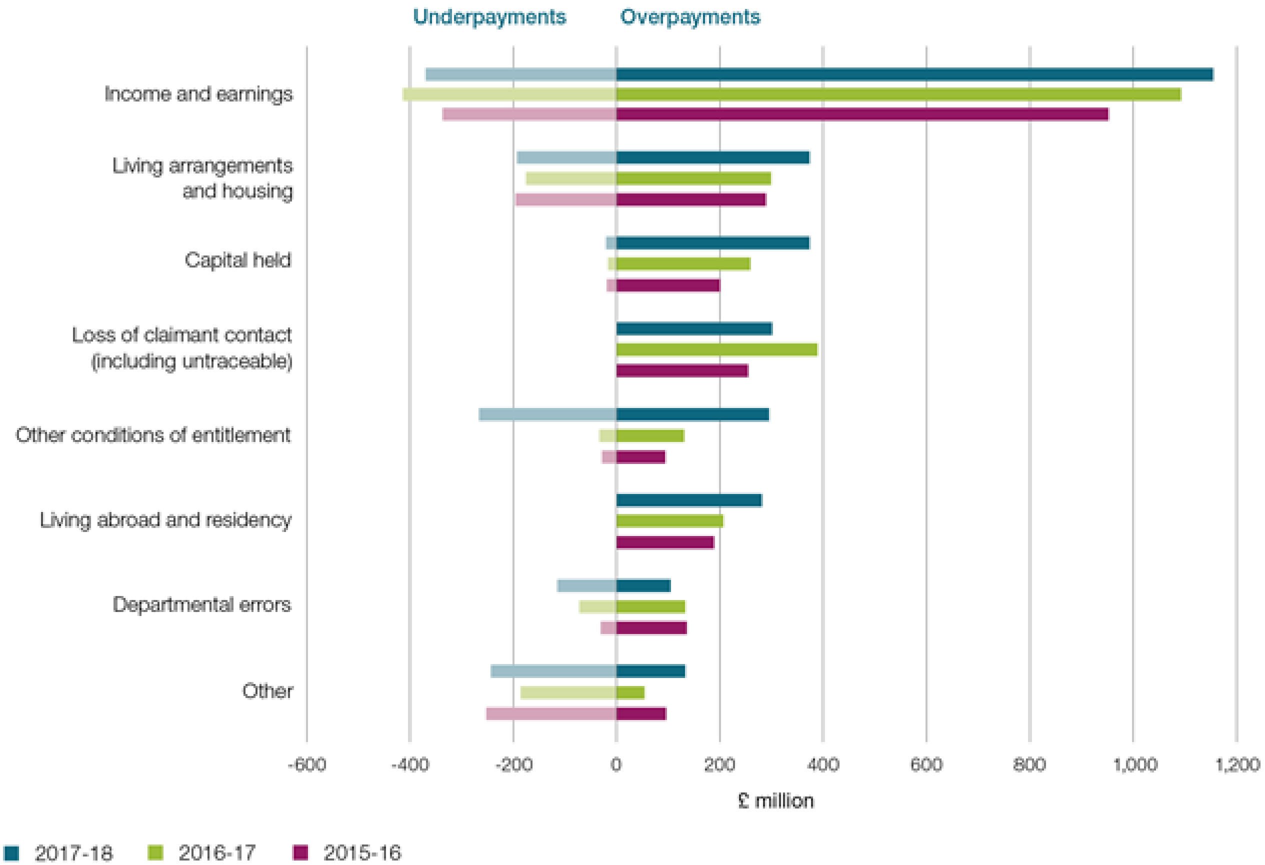
22. To prioritise its interventions to reduce fraud and error, the Department analyses fraud and error by key cause (**Figure 4**). These causes include (but are not limited to):

    - income and earnings (inaccurately reporting income);
    - living arrangements and housing (incorrectly reporting circumstances relating to partners, dependants or housing costs);
    - capital held (incorrectly reporting the level of capital owned);
    - loss of claimant contact (where the Department is unable to contact a claimant and cannot verify their claim);
    - living abroad and residency (a claimant failing to declare the correct residency status or that they are living abroad);and
    - departmental errors (where the Department fails to accurately record or calculate entitlement to benefits).

23. Untimely and inaccurate reporting of income and earnings continues to be the largest contributor to fraud and error due to overpayments, accounting for £1.2 billion of the total estimated £3.8 billion. The Department’s principal intervention to address this risk remains matching income the claimant has reported to the Department against information held by HM Revenue & Customs, referred to as the Verify Earnings and Pensions (VEP) project (previously ‘wider use of Real Time Information (RTI)’). To realise the potential impact of this intervention, the Department intends to further automate data-matching and expand its use as a preventative control when assessing awards and maintaining payments. For example, it has begun work to introduce an enhanced alerts service that will notify it of changes in earnings, employment and pension data, for a range of benefits, in real time. It is also looking at how to get better information on self-employed earnings, which are outside of the scope of RTI and the VEP project.

Figure 4
Causes of fraud and error in measured benefits by value

Untimely and inaccurate reporting of income and earnings is the largest cause of fraud and error by value



Notes

1. The Department is able to assess the causes of overpayments and underpayments on its continuously measured benefits: Jobseeker's Allowance, Pension Credit, Housing Benefit, Universal Credit, Personal Independence Payment and Employment and Support Allowance. It has not undertaken this analysis on the benefits that are not measured continuously.
2. Other conditions of entitlement include causes of fraud and error due to childcare costs, premiums, passporting, non-dependant deductions, labour market issues, award determination and functional needs.
3. The Department first published its analysis of the causes of fraud and error for total continuously measured benefits in 2010-11.
4. The Department's errors category is made up of the following error types: premiums; control activities not carried out appropriately; and award determination. The Department classifies these errors as being wholly official error in its statistical publication. Official error includes elements categorised by the Department under other headings. The total value of official error reported by the Department in 2017-18 is £1.2 billion.

Source: National Audit Office analysis of: Department for Work & Pensions Tables: *Fraud and error in the benefits system: financial year 2017-18 preliminary estimates tables*, 17 May 2018; Department for Work & Pensions Tables: *Fraud and error in the benefits system: financial year 2016-17 preliminary estimates tables*, 18 May 2017; and Department for Work & Pensions Tables: *Fraud and error in the benefits system: financial year 2015-16 preliminary estimates tables*, 19 May 2016.

24. Of the other key causes of fraud and error, the 2017-18 overpayments estimates show increases in risks relating to: living arrangements and housing; capital held; and living abroad and residency. The living arrangements risk and the capital held risk are significant contributors to fraud and error overpayments in Universal Credit (together representing 2.2% of the total 7.2% estimate of overpayments). The living abroad risk is the most significant individual cause of fraud and error overpayments in Pension Credit (1.9% of the total 5.8% estimate of overpayments). The Department has identified that £115 million of the £300 million increase in fraud and error due to the living abroad and residency risk is due to a change in the rules about the maximum time Pension Credit and Housing Benefit claimants can spend abroad. This was reduced from 13 weeks to four weeks from July 2016 meaning more people became ineligible for these benefits. The Department is working to

understand who might be affected and the likely behaviours that can lead to this type of overpayment. This will inform its approach to tackling fraud and error in this area.

25. Causes of fraud and error leading to underpayments also vary by benefit. Of the total £1.7 billion of underpayments, nearly half comes from four causes of fraud and error: incorrect reporting of income (£210 million); Personal Independence Payment claimants not reporting a deterioration in their functional needs (£240 million); underpayment of benefit premiums (£190 million); and incorrect reporting of income from other benefits (£160 million).

26. The Department's estimate of underpayments attributes £470 million of the total to official error. This is error that arises when a benefit is paid incorrectly due to inaction, delay or a mistaken assessment by the Department, a local authority or HM Revenue & Customs. The Department classifies as claimant error £140 million of underpayment due to incorrect reporting of income from other benefits. Where the Department identifies errors made by its officials, timely recognition of systemic issues will allow it to update systems and procedures to address these. Better use of the Department's data on income from other benefits would reduce overpayments and underpayments.

27. The Department has identified further options to address some of the causes of fraud and error which it will explore in the next year. These include use of banking data to tackle the capital held risk and credit reference agency data for living arrangements and housing. The Department has yet to identify actions to target living abroad and residency: however, it is assessing options, including data-sharing with HM Revenue & Customs and analysing long- dormant cases, to address known methods of fraud in this area.

28. During 2017-18, the Department has been developing a new Fraud, Error and Debt strategy, based on its understanding of the main causes of fraud and error in benefit expenditure. To deliver this strategy, the Department has created a new Counter Fraud and Compliance Directorate under a single responsible director. The strategy includes six strategic objectives:

    - empowering claimants to give the right information at the right time;
    - making stopping fraud and error everyone in the Department's business;
    - deploying interventions efficiently and effectively;
    - taking a risk-based approach to tackling fraud and error, based on a rich understanding of the root causes of loss and the behaviours that drive them;
    - optimising the use of data to tackle fraud, error and debt; and
    - designing the organisation to deliver.

29. The Department's new Fraud, Error and Debt strategy includes new risk-based intervention campaigns, designed to focus on key causes of fraud and error in an identified population of claimants. To inform this risk-based approach, the Department is bringing together its existing data acquisition, risk analysis and intelligence gathering capabilities to form a Risk and Intelligence Service (RIS). RIS will use data and intelligence to assign a risk to benefit claims and to prioritise and target campaigns. These campaigns

will include considering the policies and processes that affect the identified population of claimants, claimants' interactions with the Department and the incentives and opportunities for fraud and error.

30. I will continue to review the Department's progress in tackling fraud and error as it finalises its new strategy and then seeks to implement it. The Department is using the Fraud and Error Framework identified in my report *Fraud and error stocktake*[2] to tackle fraud and error, and I will continue to assess its progress against this.

Looking ahead

31. To measure and report progress in tackling fraud and error, the Department has set two targets: 0.9% underpayments by 2017-18 (based on final published estimates); and joint target (with HM Revenue & Customs) of 1.6% 'net loss' (overpayments less in-year recoveries) by 2017-18. The Department will report against the net loss target in 2019-20, after 2017-18 Tax Credits awards have been finalised. The Department's 2017-18 estimate of underpayments is 1.0% of total benefit expenditure and, as such, it has failed to achieve its underpayments target based on the preliminary estimates. It will measure and report progress against this target after the final estimates are published in late 2018.

32. In its Annual Report the Department has reported its own 'net loss' percentage for the third consecutive year. 'Net loss', as reported by the Department, has increased from 1.4% in 2016-17 to 1.5% in 2017-18. This increase is due to the overall increase in estimated fraud and error due to overpayments while estimated recoveries have remained stable.

33. I have reported previously that 'net loss' does not provide a clear view of the in-year accuracy of benefits payments. Currently, recoveries in any one year can relate to overpayments some time ago. As new benefits are introduced and the Department takes steps to recover its historical debt and the Tax Credits debt that will transfer from HM Revenue & Customs as Tax Credits claimants transfer to Universal Credit, recoveries in year will be increasingly unrelated to the overpayments in year. I will continue to use the total gross overpayments and underpayments to inform my view of the level of fraud and error in benefits payments, and the regularity of the Department's benefit expenditure.

34. In its new Fraud, Error and Debt Strategy, the Department states that success in tackling fraud and error in its newer benefits, Personal Independence Payment and Universal Credit, is key to its overall ambition to reduce fraud and error.

2 Comptroller and Auditor General, Fraud and error stocktake, Session 2015-16, HC267, National Audit Office, July 2015

Personal Independence Payment

35. Personal Independence Payment has been replacing Disability Living Allowance for people of working age since April 2013. In its 2017-18 Annual Report and Accounts, the Department reported separately on fraud and error related to Personal Independence Payment for the first time[3]. The estimated rate of fraud and error is 3.1% for overpayments and 3.7% for underpayments. The rate of estimated underpayments in Personal Independence Payment is the highest of any measured benefit and the Department's analysis shows that the principal reason for this is claimants not reporting gradual changes in their condition.

36. The Department relies on claimants to report changes in their condition that lead to either an improvement or a deterioration in their needs. Where changes in condition are gradual, judgement is required to determine the point at which the claimant could reasonably be expected to know that the changes would affect the level of benefit awarded, based on the support needed. Failure to report such changes is the primary cause of both overpayments, accounting for 2.2% of a total rate of 3.1%, and underpayments, accounting for 2.9% of a total rate of 3.7%, in Personal Independence Payment. The Department recognises that it needs better contact with claimants on changes in circumstances. It is examining how it can change its interactions with claimants to encourage more communication and compliance with procedures, for example through the use of online videos and revised forms. The Department is also looking to improve its guidance and reinforce the need for its staff and assessment providers to be aware of the potential for changes in claimants' conditions that could affect the level of benefit entitlement.

Universal Credit

37. Since 2013, the Department has rolled out Universal Credit in phases. It started with simpler claimant types (such as single people without dependants), using an interim set of IT systems known as the 'live service'. In 2016, it began to roll out its 'full service' digital system across the country. This is available for more complex claimant types (such as couples with up to two children). It enables claimants to apply for Universal Credit and communicate with the Department online.

38. The Department first measured fraud and error in Universal Credit live service in 2015-16. The fraud and error estimate does not yet include full service claims. In producing its estimate for overall fraud and error in Universal Credit (7.2% overpayments and 1.3% underpayments), the Department has assumed that fraud and error in the full service will be the same as that in the live service. This assumption could have a significant effect on the estimate of fraud and error in Universal Credit, details of which can be seen in note 19 to the Annual Report and Accounts.

39. The Department's final business case for Universal Credit estimates that it will reduce fraud and error in benefits and Tax Credits by some £1.3 billion each year, once it is fully rolled out. However, the level of fraud and error due to overpayments in Universal Credit itself is expected to be high and for 2017-18 is the highest of all measured benefits. I set out my concerns on the estimated reductions in fraud and error in my value for money report on

3 Fraud and error in Personal Independence Payment was first measured by the Department in its *Fraud and error in the benefit system: final 2016 to 2017 estimates first release* publication. The Department uses its preliminary statistics publications to inform its Annual Report and Accounts. The 2017-18 Annual Report and Accounts is the first that includes a separate estimate of fraud and error in Personal Independence Payment.

Universal Credit. [4]

40. Both Personal Independence Payment and Universal Credit are yet to reach their full level of spend and claimant numbers, as claimants are still migrating from legacy benefits. The current estimates of fraud and error for these two benefits, therefore, may not be representative of the level of fraud and error that will be incurred when the benefits are fully mature. However, the high estimated levels of fraud and error indicate that these newer benefits are not yet reducing the level of fraud and error as the Department expected.

Employment and Support Allowance

41. In March 2018 I reported on a systemic underpayment error in Employment and Support Allowance.[5] Since 2011, the Department has underpaid an estimated 70,000 people who transferred to Employment and Support Allowance from other benefits. The estimated average underpayment is £5,000, but some people could be owed up to £20,000. The Department is now working to review the affected cases and expects to pay £340 million in arrears by April 2019. It is important that the Department makes payments to those affected as soon as possible, and takes action to identify and rectify any possible similar widespread underpayment errors in Employment and Support Allowance or other benefits.

42. The Committee of Public Accounts identified[6] that the Department could enhance its reporting of fraud and error by reporting its analysis of the numbers of claimants affected, as well as the overall estimated monetary value of fraud and error. This information is already reported for Tax Credits, alongside values, and is under consideration by the Department.

Debt management

43. Overpayments increase costs to the taxpayer and reduce the public funds available for other purposes. Where the Department identifies overpayments of benefit that have arisen due to either fraud or error where the claimant is deemed to be at fault, it seeks to recover that overpayment and recognises a debt in its accounts. As at 31 March 2018, the value of debt resulting from overpayments of benefit was £2.7 billion. The Department impairs its debts each year in line with accounting standards. The cumulative value of the impairment against its debt as at 31 March 2018 was £1.1 billion. **Figure 5** shows the movement in these values over the last 10 years.

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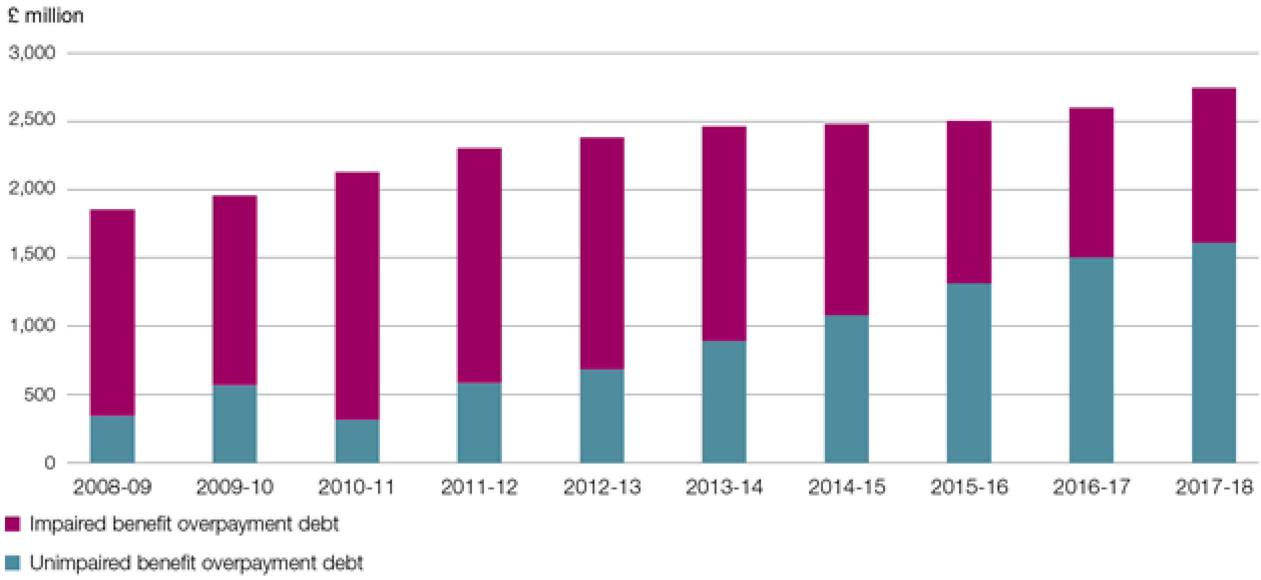
4 Comptroller and Auditor General, *Rolling out Universal Credit*, Session 2017-18, HC1123, National Audit Office, June 2018

5 Comptroller and Auditor General, Investigation into errors in Employment and Support Allowance, Session 2017–2019, HC 837, National Audit Office, March 2018

6 House of Commons Committee of Public Accounts, Employment and Support Allowance Inquiry, Questions 120 and 121, 21 May 2018, available at: http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-accounts-committee/employment-and-support-allowance/oral/83259.html

Figure 5

Debt arising from overpayment of benefits and associated impairment 2008-09 to 2017-18



Notes

1 The Department impairs its debts each year in line with accounting standards. It cannot always recover the full value of benefit overpayment debt, and some debts may have to be written off. To reflect this in its accounts, the Department analyse recoveries and write-offs in the current and prior years to estimate the expected value of recoveries in future periods, and impairs the value of benefit overpayment debts accordingly.

2 Before 2010-11 the Department accounted for receivables under UK GAAP (generally accepted accounting principles), before moving to International Financial Reporting Standards. The graph approximates the fair value adjustments before 2010-11 to impairment after this date.

Source: National Audit Office analysis of the Department for Work & Pension's Annual Report and Accounts 2017-18

44. The Department's debt stock has risen steadily over the past 10 years, from £1.9 billion in 2008-09 to £2.7 billion in 2017-18. The proportion of debt that the Department believes is recoverable has increased over time, with the Department's accounts showing 19% of debt being unimpaired in 2008-09 compared with 59% of debt in 2017-18. This indicates that, while the Department has got better at recovering debt, the scale of the debt being managed has grown considerably. The trend of increasing debt is set to continue as the Department inherits debt accumulated by HM Revenue & Customs for Tax Credits claimants.

45. When Tax Credits claimants migrate to Universal Credit, any debt they have accumulated transfers from HM Revenue & Customs to the Department. The value of debt transferred as at 31 March 2018 is £289 million. The eventual value of Tax Credits debt to be transferred is estimated to be £6.8 billion, £5.9 billion of which is expected to be transferred by 2023 as claimants transfer to Universal Credit. The timing of the transfer of the remaining £0.9 billion of debt has not yet been confirmed; this debt relates to claimants who are not currently receiving Tax Credits. This additional debt, along with the increase in claimants who owe it, will make managing debt more complex for the Department.

46. The Department has several methods for recovering outstanding debt. It first seeks to recover debt by part deducting repayments from on-going benefits or, if the claimant is no longer receiving benefits, by arranging voluntary repayment. Only once these methods have proved unsuccessful does it seek to recover debt through other methods. **Figure 6** shows the methods the Department uses to recover debt, along with the value of recoveries for the 2017-18 financial year.

Figure 6
The Department's methods of recovering debt

Method of recovery	Description	Value of recoveries 2017-18
Recovery through on-going benefits	Recovery through part deduction from future benefit awards.	£333.1 million
Recovery through voluntary payments	Recovery through agreement of a payment plan with individuals, typically received by direct debit or standing order.	£156.5 million
Direct earnings attachment	In conjunction with employers, recovery through deduction of earnings. This type of recovery is only sought if the Department and individual cannot agree a voluntary payment plan.	£44.4 million
Debt collection agencies	Where recovery cannot be made via voluntary repayments, on-benefit deductions or a direct earnings attachment, the Department can pass the debt to a debt collection agency to seek recovery.	£6.0 million
Civil litigation	Where the usual methods of recovery have been unsuccessful, the Department can seek recovery through the courts.	£2.9 million
Direct payment after death	Where the benefit claimant has died, the Department seeks to recover any overpayment of benefit (arising from payments made before the date of death) directly from the bank or next of kin.	£61.3 million
Recoveries from estates	Where the benefit claimant has died the Department can seek to recover existing debt or any overpayments after death from assets declared through the probate process from any estate left by the deceased.	£45.6 million

Source: National Audit Office analysis of the Department for Work & Pension's Annual Report and Accounts 2017-18

47. As **Figure 6** shows, the Department can seek recovery through a direct earnings attachment from claimants who are no longer receiving benefits. This method of recovery has not been available to HM Revenue & Customs when attempting to recover debts that have arisen due to overpayments of Tax Credits. The Committee of Public Accounts has expressed concern about the impact of the Department's greater powers of debt recovery on vulnerable people. The Department and HM Revenue & Customs both have mechanisms to support those who will face undue hardship due to debt recovery. These include, on request, payment 'holidays' and negotiating an affordable and sustainable repayment rate. The two departments are working together to assist individual claimants during the transition.

Sir Amyas C E Morse
Comptroller and Auditor General

National Audit Office
157-159 Buckingham Palace Road
Victoria
London
SW1W9SP

Date 28 June 2018

Financial report

Financial Statements

Introduction to the financial statements

These financial statements present the operating costs, financial position and cash flows of the Department for Work and Pensions for the year ended 31 March 2018.

In addition to our functions of paying benefits for welfare and pensions, our accounts include the following areas of spending:

National Insurance Fund (NIF)

HM Revenue and Customs is responsible for the NIF. We administer the benefits funded from the NIF on HM Revenue and Custom's behalf. We include these in our Statement of Comprehensive Net Expenditure (SOCNE) and recover them, together with the associated cost of administration, from the NIF. Financing from the NIF is included in our Statement of Cash Flows.

Social Fund

We are responsible for the Social Fund which is used to make grants and repayable loans to individuals. It makes regulated payments of Funeral Expenses Payments, Sure Start Maternity Grants, Winter Fuel Payments and Cold Weather Payments plus discretionary payments for Budgeting Loans. Where appropriate, we include these in our SOCNE.

Child Maintenance Group (CMG)

We have responsibility for the management of client funds relating to the statutory child maintenance schemes operated through the Child Maintenance Group (CMG). The legacy schemes are managed through the Child Support Agency (CSA) and the latest scheme launched in 2012, through the Child Maintenance Service (CMS).

The running costs of CMG are charged to the department however the funds they collect are not departmental assets and are not included in these accounts. CMG acts purely as custodian and the department is required, by HM Treasury, to publish Client Funds Accounts separately.

European Social Fund (ESF)

The European Social Fund is one of the European Union structural funds designed to strengthen economic and social cohesion. It helps unemployed and socially excluded people find work or become more employable. It can also be used to help prevent people in work from becoming unemployed. We record the expenditure and income related to ESF programmes in our SOCNE.

Other expenditure

This includes other expenditure that is voted to us by Parliament including the costs of running the department and subsidies paid by grants to local authorities that administer and pay Housing Benefit. Grant in aid and grant payments to our arm's length bodies are recorded as expenditure.

Arm's length bodies

Our arm's length bodies are shown in 'Corporate Governance' on page 92. They are all administered separately from the department and they produce their own Annual reports and accounts.

Financial Assistance Scheme Trust Statement

The Financial Assistance Scheme (FAS) helps members of defined benefit occupational schemes when their employers become insolvent. A Trust Statement is prepared to present the assets transferred to FAS from such schemes, and the subsequent transfer of those assets to government. We've published the Trust Statement alongside this Annual report and accounts at pages 238 to 255. The costs of administering FAS are included as expenditure in our SOCNE.

Consolidated Statement of Comprehensive Net Expenditure

for the year to 31 March 2018

The notes on pages 191 to 235 form part of these accounts.

			31 March 2018		31 March 2017
		Core department	Departmental group	Core department	Departmental group
	Note	£000	£000	£000	£000
Staff expenditure	3	2,603,464	2,819,880	2,597,696	2,786,333
Purchase of goods and services	4	2,223,375	2,040,866	2,231,916	2,098,850
Benefit and Social Fund expenditure	5	177,170,867	177,170,867	174,084,297	174,088,854
Depreciation and impairment charges	6	131,361	142,352	94,499	104,898
Provision expense	6	1,512,408	1,518,835	275,719	281,245
Total operating expenditure		**183,641,475**	**183,692,800**	**179,284,127**	**179,360,180**
Operating income	7	(286,324)	(370,083)	(233,599)	(323,386)
Total operating income		**(286,324)**	**(370,083)**	**(233,599)**	**(323,386)**
Finance income	7	(37,238)	(37,260)	(29,102)	(29,120)
Finance expense	4	83,147	101,924	82,064	92,722
Net expenditure for the year		**183,401,060**	**183,387,381**	**179,103,490**	**179,100,396**
Transfer of ALB's Pension Scheme		-	-	243,475	-
Tax Credit receivables	8	(44,068)	(44,068)	(39,407)	(39,407)
Net operating costs for the year		**183,356,992**	**183,343,313**	**179,307,558**	**179,060,989**

Other comprehensive net expenditure

Items that will not be reclassified to net operating expenditure				
Net loss/(gain) on:				
revaluation of property, plant and equipment	(18)	(7,259)	(11,250)	(31,760)
revaluation of intangibles	(40,877)	(40,893)	(48,158)	(48,193)
revaluation of assets held for sale	-	-	147	147
revaluation of pension fund	(28,731)	(28,731)	-	-
Items that may be reclassified subsequently to net operating costs				
Net loss/(gain) on:				
revaluation of available for sale financial assets	-	-	2,492	2,492
Total comprehensive net expenditure for the year ended 31 March 2018	**183,287,366**	**183,266,430**	**179,250,789**	**178,983,675**

All income and expenditure is derived from continuing operations.

Consolidated Statement of Financial Position

as at 31 March 2018

The notes on pages 191 to 235 form part of these accounts.

		31 March 2018		31 March 2017	
		Core department	Departmental group	Core department	Departmental group
	Note	£000	£000	£000	£000
Non-current assets:					
Property, plant and equipment	9	302,656	422,638	316,741	430,745
Intangible assets	10	535,877	539,934	532,873	537,447
Financial assets	11	632,747	622,747	544,147	539,147
Trade receivable, financial and other assets	14	1,847,892	1,848,679	1,657,778	1,659,298
Total non-current assets		**3,319,172**	**3,433,998**	**3,051,539**	**3,166,637**
Current assets:					
Assets classified as held for sale		23,573	23,573	-	1,026
Trade receivable, financial and other assets	14	2,545,698	2,585,983	2,844,356	2,880,736
Cash and cash equivalents	13	151,165	174,366	221,442	226,613
Total current assets		**2,720,436**	**2,783,922**	**3,065,798**	**3,108,375**
Total assets		**6,039,608**	**6,217,920**	**6,117,337**	**6,275,012**
Current liabilities:					
Trade payables and other liabilities	15	(4,829,983)	(4,870,582)	(5,080,672)	(5,122,311)
Provisions for liabilities and charges	17	(1,085,887)	(1,094,788)	(201,485)	(204,110)
Total current liabilities		**(5,915,870)**	**(5,965,370)**	**(5,282,157)**	**(5,326,421)**
Total assets less current liabilities		**123,738**	**252,550**	**835,180**	**948,591**
Non-current liabilities:					
Provisions for liabilities and charges	17	(7,510,012)	(7,510,702)	(7,111,261)	(7,114,508)
Other payables	15	(368,875)	(463,165)	(381,635)	(478,451)
Pension liability	18	(139,774)	(140,741)	(241,081)	(242,500)
Total non-current liabilities		**(8,018,661)**	**(8,114,608)**	**(7,733,977)**	**(7,835,459)**
Assets less liabilities		**(7,894,923)**	**(7,862,058)**	**(6,898,797)**	**(6,886,868)**
Taxpayers' equity and other reserves:					
General fund		(8,001,909)	(8,006,137)	(7,065,884)	(7,083,875)
Revaluation reserve		106,986	144,079	167,087	197,007
Total equity		**(7,894,923)**	**(7,862,058)**	**(6,898,797)**	**(6,886,868)**

Peter Schofield CB
Accounting Officer
26 June 2018

Consolidated Statement of Cash Flows

for the year ended 31 March 2018

The notes on pages 191 to 235 form part of these accounts.

		31 March 2018		31 March 2017	
		Core department	Departmental group	Core department	Departmental group
Cash Flows from Operating activities	**Note**	**£000**	**£000**	**£000**	**£000**
Net cost for the year		(183,356,992)	(183,343,313)	(179,307,558)	(179,060,989)
Adjustments for non-cash transactions	6 & 7	1,582,342	1,599,314	395,067	410,824
Adjustments for Tax Credit receivable transferred from HM Revenue and Customs	8	(44,068)	(44,068)	(39,407)	(39,407)
Decrease/(increase) in trade and other receivables	14	108,544	105,372	(292,881)	(295,524)
Movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure		(70,713)	(70,717)	555,460	553,677
Decrease in inventories		-	-	-	550
Increase/(decrease) in trade and other payables	15	620,867	617,410	(393,502)	(398,297)
Movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		(87,162)	(87,782)	563,259	323,417
Utilisation of provisions	17	(229,255)	(229,255)	(233,782)	(234,232)
Net cash outflow from operating activities		**(181,476,437)**	**(181,453,039)**	**(178,753,344)**	**(178,739,981)**
Cash flows from investing activities					
Purchase of property, plant and equipment	9a	(116,111)	(123,870)	(70,957)	(79,575)
Purchase of intangible assets	10a	(108,586)	(110,324)	(96,737)	(97,969)
Proceeds of disposal of property, plant and equipment and intangible assets		5,375	5,776	1,995	380
Proceeds of disposal of assets held for sale		11,628	12,778	5,257	5,257
Proceeds of disposal of financial assets		-	-	2,133	2,133
Loans to other bodies	11	(88,600)	(83,600)	(84,500)	(79,500)
Repayment of loans		-	-	691	691
Net cash outflow from investing activities		**(296,294)**	**(299,240)**	**(242,118)**	**(248,583)**
Cash flows from financing activities					
From the Consolidated Fund (supply) current year		82,054,154	82,054,154	80,713,268	80,713,268
From the Consolidated Fund (supply) prior year		315,242	315,242	-	-
Net financing from the National Insurance Fund		100,441,433	100,441,433	98,492,537	98,492,537
Advances from the Contingencies Fund		30	30	-	-
Capital element of payments in respect of finance leases and on-Statement of Financial Position PFI contracts		(136,850)	(139,163)	(127,403)	(130,939)
Net financing		**182,674,009**	**182,671,696**	**179,078,402**	**179,074,866**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**901,278**	**919,417**	**82,940**	**86,302**
Payments of amounts due to the Consolidated Fund		(87,239)	(87,239)	(95,670)	(97,080)
Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	**13**	**814,039**	**832,178**	**(12,730)**	**(10,778)**
Cash and cash equivalents at the beginning of the period	**13**	**(1,208,792)**	**(1,203,730)**	**(1,196,062)**	**(1,192,952)**
Cash and cash equivalents at the end of the period	**13**	**(394,753)**	**(371,552)**	**(1,208,792)**	**(1,203,730)**

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2018

The notes on pages 191 to 235 form part of these accounts.

		General Fund		Revaluation Reserve		Total Reserves	
		Core department	Departmental group	Core department	Departmental group	Core department	Departmental group
	Note	£000	£000	£000	£000	£000	£000
Balance at 31 March 2016		**(7,480,742)**	**(7,745,310)**	**193,330**	**202,713**	**(7,287,412)**	**(7,542,597)**
Net parliamentary funding drawn down (current year)		80,713,268	80,713,268	-	-	80,713,268	80,713,268
Repayments to the Consolidated Fund	SOPS4	(85,000)	(85,000)	-	-	(85,000)	(85,000)
Net parliamentary funding – deemed		224,749	224,749	-	-	224,749	224,749
Funding from National Insurance Fund		98,492,537	98,492,537	-	-	98,492,537	98,492,537
Supply receivable adjustment	14	315,242	315,242	-	-	315,242	315,242
CFERs payable to the Consolidated Fund	SOPS4	(20,040)	(20,040)	-	-	(20,040)	(20,040)
Net costs for the year		(179,307,558)	(179,060,989)	-	-	(179,307,558)	(179,060,989)
Non-cash adjustments:							
Non-cash charges – Auditor's remuneration	6	1,438	1,438	-	-	1,438	1,438
Movements in reserves:							
Recognised in Statement of Comprehensive Expenditure		-	-	56,769	77,314	56,769	77,314
Transfers between reserves		83,012	83,020	(83,012)	(83,020)	-	-
Government Gateway		(2,790)	(2,790)	-	-	(2,790)	(2,790)
Balance at 31 March 2017		**(7,065,884)**	**(7,083,875)**	**167,087**	**197,007**	**(6,898,797)**	**(6,886,868)**

		General Fund		Revaluation Reserve		Total Reserves	
		Core department	Departmental group	Core department	Departmental group	Core department	Departmental group
	Note	£000	£000	£000	£000	£000	£000
Balance at 31 March 2017		**(7,065,884)**	**(7,083,875)**	**167,087**	**197,007**	**(6,898,797)**	**(6,886,868)**
Net parliamentary funding drawn down (current year)		82,054,154	82,054,154	-	-	82,054,154	82,054,154
Repayments to the Consolidated Fund	SOPS4	(65,000)	(65,000)	-	-	(65,000)	(65,000)
Advances from the Contingencies Fund		30	30	-	-	30	30
Net parliamentary funding – drawn down (prior year)	14	315,242	315,242	-	-	315,242	315,242
Funding from National Insurance Fund		100,441,433	100,441,433	-	-	100,441,433	100,441,433
Supply payable adjustment	15	(125,320)	(125,320)	-	-	(125,320)	(125,320)
Supply receivable previous year clearance	14	(315,242)	(315,242)	-	-	(315,242)	(315,242)
CFERs payable to the Consolidated Fund	SOPS4	(15,500)	(15,500)	-	-	(15,500)	(15,500)
Net costs for the year		(183,356,992)	(183,343,313)	-	-	(183,356,992)	(183,343,313)
Non-cash adjustments:							
Non-cash charges – Auditor's remuneration	6	1,443	1,443	-	-	1,443	1,443
Actuarial revaluation on pension		28,731	28,731	-	-	28,731	28,731
Movements in reserves:							
Recognised in Statement of Comprehensive Net Expenditure		-	-	40,895	48,152	40,895	48,152
Transfers between reserves		100,996	101,080	(100,996)	(101,080)	-	-
Balance at 31 March 2018		**(8,001,909)**	**(8,006,137)**	**106,986**	**144,079**	**(7,894,923)**	**(7,862,058)**

a) The general fund represents the total assets less liabilities of the entities within the accounting boundary, to the extent that the total is not represented by other reserves and financing items.

b) The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

c) Included in movement in reserves in 2016-17 is Government Gateway, this relates to a Machinery of Government change where the Government Gateway assets were transferred to HM Revenue and Customs.

Notes to the Accounts

1. Statement of accounting policies

1.1 Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with the 2017-18 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

Where the FReM lets us choose an accounting policy, we've picked the one that we think is the most appropriate to our circumstances and which gives a true and fair view. The policies we've adopted are set out below. We've applied them consistently in dealing with items that we consider are material to the accounts.

As well as preparing the primary statements under IFRS, we are required under the FReM to prepare the Statement of Parliamentary Supply. This statement is shown on page 143 and shows outturn against Estimate in terms of our net resource requirement and net cash requirement.

1.2 Accounting standards, interpretations and amendments

We have adopted all IFRS, International Accounting Standards (IAS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and amendments to published standards that were effective at 31 March 2018. We've also taken into account the specific interpretations and adaptations included in the FReM.

IFRS 9 Financial Instruments Effective From 1 January 2018

Impairment

From 1st April 2018 we adopted IFRS 9 Financial Instruments, which sets out the rules for classification and measurement of impairment for financial assets. This replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 requires an entity to recognise expected credit losses. The assessment of credit loss is a complex matter, dealing with uncertain outcomes, assumptions regarding probability and estimation of volatile contributing factors.

Classification

Under IFRS 9, financial assets are classified as either being: Fair Value through Other Comprehensive Income; Fair Value through Profit and Loss; or those classified at amortised cost. Following discussion with HM Treasury we now expect that the FReM adaptation of the definition of 'contract' in IFRS 15 is to be extended to IFRS 9. This expands the definition of 'contract' 'to include legislation and regulations which enable an entity to obtain revenue that is not classed as tax by the Office of National Statistics'.

Given the expansion of the definition of contract we consider that, under IFRS 9 as amended by the FReM, Benefit Overpayment debt should be held at amortised cost. It's our current consideration that the SPPI (solely payments of principal and interest) test is satisfied.

- Benefit Overpayment debt is held in order to collect contractual cash flows; and
- Benefit Overpayment debt gives rise to cash flows that are solely payments of

principal and interest on the principal amount outstanding

The amortised cost being 'the amount at which the financial asset is measured at initial recognition, minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance'.

Current Methodology under IAS 39

We currently use a method for calculating impairment for Benefit Overpayment debt, which looks at weighted historic write offs and recoveries across its entire debt stock, over a rolling 12 month period. This data is then used to derive an estimated impairment loss by Benefit type. At present, we factor into this calculation the uplifting on Benefit recoveries and all cash-flows are discounted at the appropriate HM Treasury discount rate. This approach will continue to be key in assessing impairment under IFRS 9 together with consideration being given to potential future economic, policy and social impacts that may have an effect.

Measurement of Benefit Overpayment debt under IFRS 9

IFRS 9 explicitly requires that an entity impairs its assets using an expected credit loss model. The expected credit loss model must consider forward looking information to recognise the impact of possible future economic changes.

IFRS 9 takes a staged approach to impairment. However, as the definition of 'contract' [as defined in the FReM adaptation 1 of IFRS 15] is expected to be extended to IFRS 9, the above mentioned approach regarding accounting policy is removed as the FReM adaptation of IFRS 9 instructs all entities adopting the standard to 'recognise a loss allowance at an amount equal to lifetime expected credit losses'.

In line with the Standard and FReM interpretation above, we intend to view creditworthiness of debt stock by weighted average, the weighting being the respective risks of a default occurring and will implement an accounting policy which recognises full lifetime expected credit losses. After undertaking relevant analysis, the department does not expect the adoption of IFRS 9 to have a material impact on the impairment of benefit debt overpayments.

IFRS 15 Revenue from Contracts with Customers Effective from 1 January 2018

This is effective from 1 January 2018 for the private sector and will be introduced in the 2018-19 FReM to replace IAS 18 and IAS 11. It will unify the concepts in these two standards into a single model to recognise revenue as a performance obligation under a contract. Our income is not material in our financial statements and we do not anticipate any material changes to the way that we recognise income as a result of this standard. As a result, we do not expect this standard to have an impact on our statements.

IFRS 16 Leases Effective from 1 January 2019

This is effective from 1 January 2019 for the private sector and will be introduced in the 2019-20 FReM to replace IAS 17.

The new standard amends the accounting for lessees, removing the distinction between recognising an operating lease (off balance sheet) and a finance lease (on balance sheet). The new standard requires recognition of all qualifying leases on balance sheet.

The result will be recognition of a right to use asset, measured at the present value of future lease payments, with a matching liability. The pattern of recognition of the expenditure will result in depreciation of the right to use asset and an associated finance cost being recognised.

HM Treasury are yet to conclude on how IFRS 16 will be adopted across government, but our expectation is that around 750 of the Department's operating leases could meet the definition of a lease under IFRS 16, resulting in recognition from 1 April 2019 of assets with a value in the region of £1 billion, along with a lease liability of the same amount.

1.3 Accounting convention

We have prepared these financial statements on an accrual basis under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets, inventories and some financial assets and liabilities.

These financial statements are prepared in £ sterling, which is our functional currency.

1.4 Basis of consolidation

These statements cover the whole departmental group. By this, we mean the core department, which is supply financed, plus all of our arm's length bodies that fall within the departmental boundary (as shown on page 92). We've eliminated all transactions between entities included in this consolidation.

1.5 Areas of judgement and estimation techniques

In preparing the financial statements we have to make judgements, estimates and assumptions that affect the application of policies and reported amounts of our assets and liabilities, income and expenditure. These are based on historical and other factors we think are reasonable, and we review our estimates and underlying assumptions regularly. Areas of judgement include non-current asset revaluations, depreciation and amortisation periods, provisions, early departure costs and impairment.

The policies below highlight areas that involve a high degree of judgement or complexity, and areas where the assumptions and estimates are significant to the financial statements.

Impairment of benefit overpayment receivables

Benefit receivables are reviewed annually for impairment. The impairment calculation looks at prior-year recoveries and write-offs arising in the current year. It uses these to project the amounts that will be recovered in the next 15 years. Recoveries and write-offs are analysed by the age of the debt they relate to. We use this analysis to estimate the value of recoveries in future periods, before discounting it to its present value. For more information refer to note 14 on page 212.

Financial Assistance Scheme

For the Financial Assistance Scheme, we estimate the net present value of the likely assistance payments. Our estimate is based on an actuarial model of likely caseload provided by Pension Protection Fund. Cash flows are discounted to give their present value at the Statement of Financial Position date. The rates used take account of the latest economic conditions and are updated annually.

Due to the long-term nature of the liabilities and the assumptions on which the estimate of the provision is based, some uncertainty about the value of the liability remains. All key assumptions requiring some level of judgement are detailed in note 17. The sensitivity analysis table in note 17 enables readers to understand the impact on the estimate when the key assumptions are adjusted.

A contingent liability disclosure has been made for schemes yet to transfer to the Financial Assistance Scheme (see note 20).

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

Figures provided for these benefits are amounts paid to the National Insurance Fund for expected employer recoveries of these benefits. The estimate is produced using information on past recoveries (see note 5a).

1.6 Revenue recognition

We comply with IAS 18 (Revenue) for income streams and recognise revenue when earned. For the European Social Fund, where we act as an agent, we recognise income in the accounting periods in which the EU sponsored projects are funded.

1.7 Property, plant and equipment

Property, plant and equipment are stated at fair value. However, as permitted by the FReM, we have adopted a depreciated historical cost basis as a proxy for fair value where non-property assets have a short useful life or are of relatively low value. This applies to most IT hardware, motor vehicles, plant and machinery and furniture and fittings.

Assets are capitalised where they have an expected useful life of more than one year and where the original cost of the item exceeds the capitalisation threshold. Where appropriate, items are pooled. The following thresholds apply:

- Leasehold improvements £100,000
- Other tangible assets £5,000
- Information technology £1,000

All expenditure on repairs and maintenance is charged to the Statement of Comprehensive Net Expenditure during the financial year in which it's incurred.

1.8 Land and buildings

We measure land and buildings initially at cost, restated to current value using external professional valuations. This is in accordance with IAS 16 (Property, Plant and Equipment), as interpreted by the FReM. Inspections of each property are performed at least every five years. In the intervening years the valuers use an indexation model developed to be appropriate to the property location to value the land and building asset.

We value most land and buildings on an existing-use basis (the exception is the specialist laboratory site owned by the Health and Safety Executive, which we've included at depreciated replacement cost) as provided under IAS 16, adapted and interpreted for the public sector to limit the circumstances in which a valuation is prepared under IFRS 13.

Spending on major refurbishment and improvement of properties is capitalised and reported as land and buildings or leasehold improvements, depending on its nature. This is appropriate because the expenditure provides a long-term continuing benefit.

Independent valuations have been performed on our land and buildings, in each case, the valuations were performed on a fair-value basis by members of the Royal Institution of Chartered Surveyors, in accordance with their Appraisal and Valuation Standards.

The following independent valuations have been performed on land and buildings:

Building	Valuations performed by	Date of last full valuation
DWP Estate (Newcastle Estates Development (NED))	Alister Stewart (DVS Valuation Agency)	January / February 2018
HSE Redgrave Court, Bootle	Cushman & Wakefield	31 December 2014
HSE Health and Safety Laboratory, Buxton	Jones Lang LaSalle Ltd	31 March 2017
HSE Priestly House, Basingstoke	Carter Jonas	31 March 2016
HSE Victoria Place, Carlisle	Cushman & Wakefield	31 December 2013

Leasehold land was depreciated in order to write-off the value of land that was held under the PRIME finance lease arrangement over the remaining period of the PRIME contract, which ceased on 31 March 2018.

1.9 Intangible assets

Whether we acquire intangible assets externally or generate them internally we measure them initially at cost, with subsequent measurement at fair value. Where an active market exists for the asset, it is carried at a revalued amount based on market value at the end of the reporting period. Where no active market exists we revalue assets using appropriate indices to indicate depreciated replacement cost as an alternative for fair value.

We revalue internally developed software and software licences using the most recent Office for National Statistics published indices.

Purchased software licences

We capitalise software licences at cost as intangible assets if they are in use for more than one year and cost more than £5,000 (2016-17: £1,000).

We capitalise applications at cost as intangible assets if they are in use for more than one year and cost more than £5,000. Multi-year software as a service agreements, comprising software licence and service elements paid for on a subscription basis, are reviewed individually to determine the extent of the service provision. Any licencing component in the agreement is assessed against IAS 38 to determine whether it meets the criteria for recognition as an intangible asset and where it does, a threshold of £1 million is applied.

We later revalue these using appropriate indices as a proxy for fair value. As we own so many software licences, we account for them on a pooled basis.

IP addresses are held as a specific sub-category of software licences until the point they satisfy the criteria to be reclassified as assets held for sale. They are held at market value, based on an estimate of the income they would currently return in the emerging IPv4 address market.

Spending on annual software licences is charged to the Statement of Comprehensive Net Expenditure when incurred.

Internally developed software

We capitalise internally developed software if it meets the criteria in IAS 38 (Intangible Assets). We classify development costs as assets under the course of construction until the asset is available for use. At that point we transfer it to the relevant asset class.

Website development costs

We capitalise website development costs in line with the requirements of SIC 32 'Web Site Costs'.

1.10 Depreciation and amortisation

We charge depreciation on property, plant and equipment and calculate amortisation on intangible assets with a finite life using the straight-line method to reflect the consumption of economic benefits. Depreciation/amortisation is charged to either administration or programme costs in accordance with how the associated assets are being used.

Depreciation

No depreciation is charged on freehold land. Estimated useful asset lives are within these ranges:

Freehold buildings	The shorter of 50 years or remaining life as assessed by valuers. (80 years for HSE's science division)
Leasehold land and buildings	Period remaining on lease or to next rent review
Health and Safety Executive/ Health and Safety Laboratory Private Finance Initiative leasehold buildings	60 years designated life
Leasehold improvements	Period remaining on lease (up to 20 years)
Information technology	2 to 9 years
Plant and machinery	5 to 10 years (5 to 20 years for HSE's science division)
Furniture and fittings	2 to 15 years (2 to 30 years for HSE's science division)
Motor vehicles	3 to 10 years

Amortisation

Purchased software licences	The shorter of the licence period or a period from 2 to 15 years as aligned to the useful economic life (UEL) of the application/developed software the licence provides access to.
Internally developed software	2 to 20 years
Websites	5 to 7 years

IP addresses are treated as a specific sub-category of software licences, for which:

- the UEL is determined to be the period from initial recognition to the estimated sale date
- the residual value is calculated as the estimated market value less costs to sell, this is the value we depreciate

1.11 Financial assets and liabilities

In line with IAS 39 (Financial Instruments), we recognise financial assets and liabilities when we become party to the contracts that give rise to them. Our policy is not to trade in financial instruments.

Loans and receivables

The fair value of trade receivables is usually the original invoiced amount. We recognise any changes in value in the Statement of Comprehensive Net Expenditure.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, short term deposits with an initial maturity of three months or less and current balances with banks and similar institutions. For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents are as previously defined net of outstanding bank overdrafts. We include bank overdrafts in current liabilities in the Statement of Financial Position.

Available for sale financial assets

We recognise available for sale financial assets at fair value. We recognise unrealised gains and losses arising from changes in fair value initially in the Consolidated Statement of Changes in Taxpayers' Equity. Upon sale the cumulative gain or loss is transferred to the Statement of Comprehensive Net Expenditure.

Impairment of financial assets

At the end of the reporting period we assess whether there is objective evidence that financial assets are impaired as a result of events that occurred after the initial recognition of the asset and before the end of the reporting period. For the purposes of a collective evaluation of impairment, we group financial assets where they are not individually significant. We do this on the basis of similar risk characteristics, taking into account the type of instrument and other relevant factors.

1.12 Benefit overpayments

We seek to recover all overpayments where we have the legal basis to do so unless it would cause financial hardship or wouldn't be cost-effective. Where recovery isn't cost-effective we write off overpayments – with the exception of fraud cases and direct payments after death.

We recognise receivables in the accounts when there is a legal basis to seek recovery. Benefit receivables are valued at the difference between the amount the customer has been paid and what they should have been paid, less any impairment of these receivables.

We don't recognise certain categories of identified benefit overpayment as receivables, including:

- those due to official error where there is no statutory right of recovery
- cases satisfying Secretary of State waiver policies
- where the customer has died and the estate isn't large enough to recover the overpayment

We periodically review the quality and consistency of write-off decision-making. Our write-off policy has been agreed with HM Treasury.

1.13 Tax Credit receivables

The department has taken on the debt associated with HM Revenue and Customs Personal Tax Credits for customers who have made a claim to Universal Credit (UC) and have existing Tax Credits debt or have migrated from Tax Credits to UC. The debt started to transfer in April 2016 and is planned to continue to transfer over the coming years as more customers move to UC.

In line with the Government Financial Reporting Manual adaptation of IAS 20 (accounting for government grants), this transfer has been treated as a donated asset capital grant in kind and disclosed as such throughout the Financial Statements. The debt has been transferred at fair value (the asset alongside the associated impairment) calculated under IFRS 13 (Fair Value Measurement) which is the estimated actual value. The estimated actual value at the point of transfer has been calculated by HM Revenue and Customs by applying impairment to the gross debt.

Unlike our existing benefits and pensions overpayment debt, we do not hold historical data on the success of recovery of this debt. As an alternative, we have adopted the impairment rate in use for our existing voted benefit stock to arrive at an impairment for the Tax Credit debt.

1.14 Provisions

We recognise provisions in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets). They are valued using the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant we discount the estimated risk-adjusted cash flows using the real rate set by HM Treasury.

1.15 Pensions

Past and present employees are covered by the provisions of the Civil Service Pension arrangements. The defined benefit schemes are unfunded and are contributory public service occupational pension schemes made under the Superannuation Act 1972. We recognise 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 Civil Service Pension arrangements of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the Civil Service Pension arrangements. In respect of the defined contribution schemes, we recognise the contributions payable for the year.

Full information about Civil Service pension arrangements can be found at: www.civilservicepensionscheme.org.uk

For information regarding our Remploy pension scheme please see note 18.

1.16 Leases

To determine whether an arrangement is or contains a lease, we look at the substance of the arrangement. Then we assess whether fulfilling that arrangement will depend on the use of a specific asset and whether the arrangement gives the right to use the asset.

Leases of assets where we substantially bear all risks and rewards of ownership are classified as finance leases. We've assessed significant lease arrangements under IFRIC 4 (Determining Whether an Arrangement Contains a Lease) and IAS 17 (Leases) and accounted for them in accordance with the FReM. We recognise related assets as non-current assets in the Statement of Financial Position and account for the liability to pay for these assets as a finance lease. Contract payments can be attributed to either the service charge element or the capital repayment and interest element of the contract.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases, with associated costs charged to the Statement of Comprehensive Net Expenditure.

1.17 Contingent liabilities

We disclose contingent liabilities in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets).

Where the time value of money is material we state contingent liabilities that we have to disclose under IAS 37 at discounted amounts and separately note the amount reported to Parliament.

Remote Contingent Liabilities

For some statutory and non-statutory contingent liabilities the likelihood of transfer of economic benefit is remote. However, we would disclose these for parliamentary reporting and accountability purposes in the Remote Contingent Liabilities section within the Accountability Report on page 161.

1.18 Grant in aid

Grants in aid to our arm's length bodies are treated as expenditure in our Statement of Comprehensive Net Expenditure. In the accounts of the arm's length bodies these grants are treated as financing, and are credited to their reserves. Grants in aid are accounted for on a cash basis.

2. Statement of operating costs by operating segment

Our operating segments are reported to their respective decision making committees based on the expenditure type.

The Statement of Parliamentary Supply (SoPS) and supporting notes reflect the net resource and capital outturn in line with the control totals voted by Parliament. The totals in our operating segments align with the SoPS.

We have two types of expenditure - **Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME)**.

DEL: spending which is generally within our control and managed in fixed multi-year limits. Some elements may be demand led.

Our People and Resources Committee (PRC) is the chief decision-making body within the department for DEL expenditure. It is supported by Investment

Committee who receive updates on our monthly management accounts. The monthly management accounts are based on our DEL operating segments and detail our spending and any financial issues they need to be aware of.

We've disclosed our DEL segments as:

- **Operations** - the frontline costs of delivering benefits for people of working age and pension age.
- **Corporate functions**
  - Finance group - our core finance functions, together with our contracts for accommodation, health and employment programmes and our DEL spend for local authorities
  - Digital group - our IT Contracts and front line support for our IT
  - Strategy group
  - Human resources
  - Other corporate functions
- **Change** - our investment programmes and projects
- **Arms length bodies** - the expenditure incurred by the bodies within our accounting boundary on page 92.

	2017-18	**2016-17**
	£000	**£000**
Operations	**2,422,863**	**2,351,847**
Corporate:		
Finance group	2,072,318	2,257,274
Digital group	939,457	889,254
Strategy	155,025	120,335
Human resources	90,287	73,234
Other corporate	12,143	29,064
Change	624,109	540,954
Arms length bodies	224,219	190,418
Total resource and capital DEL	**6,540,421**	**6,452,380**

AME: spending which is generally less predictable and controllable than spending in DEL. This covers expenditure on benefits for welfare, pensions and Social Fund.

Our AME expenditure is managed jointly by DWP and HM Treasury and reported to the AME board who are instrumental in the AME decision making process.

AME is reported as 'Inside' and 'Outside' Welfare Cap.

	2017-18	**2016-17**
	£000	**£000**
Inside the Welfare Cap	78,311,749	76,178,411
Outside the Welfare Cap	98,903,970	96,655,118
Total resource and capital AME	**177,215,719**	**172,833,529**
Total resource and capital DEL and AME	**183,756,140**	**179,285,909**

SoPS notes 1.1 and 1.2 provide details of resource and capital.

SoPS 2 on page 149 reconciles SoPS resource to the Statement of Consolidated Net Expenditure. This note does not include assets and liabilities as they are not included in the management information that is provided to the boards.

3. Staff expenditure

	2017-18		2016-17	
	Core department	Departmental group	Core department	Departmental group
	£000	£000	£000	£000
Wages and salaries	2,033,632	2,201,659	2,046,323	2,191,344
Employers' National Insurance	183,639	201,393	168,453	183,618
Superannuation and pension costs	386,193	416,828	382,920	411,371
Total staff costs	**2,603,464**	**2,819,880**	**2,597,696**	**2,786,333**

We have presented the full staff and related expenditure disclosure in the remuneration and staff report on page 133.

4. Expenditure

		2017-18		2016-17	
		Core department	Departmental group	Core department	Departmental group
	Note	£000	£000	£000	£000
Purchase of goods and services					
Goods and services		1,014, 402	1,086,861	947,249	1,006,679
IT services		532, 614	497,352	565,175	568,000
Accommodation expenditure		409, 685	424,244	412,753	424,660
Grant-in-aid		237, 155	-	219,818	-
Other costs		51, 353	51,353	39,312	47,502
Non-cash goods and services	6	(58,326)	(58,772)	24,849	24,681
Rentals under operating leases		15, 957	19,083	13,721	18,084
Agency payments on behalf of EU to third parties		20, 535	20,535	9,039	9,039
Audit fee		-	210	-	205
Purchase of goods and services total		**2,223, 375**	**2,040,866**	**2,231,916**	**2,098,850**
Finance expense					
PFI service charges		73, 151	83,771	66,439	76,976
Finance lease charges		9, 996	18,153	15,625	15,746
Total finance expense		**83, 147**	**101,924**	**82,064**	**92,722**

5. Benefit and Social Fund expenditure

		2017-18		2016-17	
		Core department	Departmental group	Core department	Departmental group
	Note	£000	£000	£000	£000
Voted expenditure	5a	75,013,754	75,013,754	74,095,054	74,099,611
Non-voted expenditure	5b	99,618,125	99,618,125	97,523,600	97,523,600
Social Fund expenditure		2,161,132	2,161,132	2,078,243	2,078,243
Programme balances written off		377,856	377,856	387,400	387,400
Total		**177,170,867**	**177,170,867**	**174,084,297**	**174,088,854**

5a. Voted expenditure

	2017-18		2016-17	
	Core department	Departmental group	Core department	Departmental group
	£000	£000	£000	£000
Amounts paid to local authorities	22,161,036	22,161,036	23,312,314	23,312,314
Employment and Support Allowance	10,051,724	10,051,724	10,017,758	10,017,758
Disability Living Allowance	9,362,786	9,362,786	11,501,761	11,501,761
Personal Independence Payment	8,124,233	8,124,233	5,157,111	5,157,111
Attendance Allowance	5,503,971	5,503,971	5,461,802	5,461,802
Pension Credit	5,345,436	5,345,436	5,612,277	5,612,277
Universal Credit	3,225,179	3,225,179	1,567,858	1,567,858
Carer's Allowance	2,830,437	2,830,437	2,676,801	2,676,801
Statutory Sick Pay and Statutory Maternity Pay	2,421,000	2,421,000	2,152,000	2,152,000
Income Support	2,151,679	2,151,679	2,358,447	2,358,447
Jobseeker's Allowance	1,437,244	1,437,244	1,612,849	1,612,849
Industrial Injuries Benefit Scheme	839,899	839,899	859,992	859,992
TV licenses for over 75s	656,066	656,066	628,831	628,831
Employment programmes	453,198	453,198	579,710	579,710
Severe Disablement Allowance	118,991	118,991	234,486	234,486
Other expenditure	330,875	330,875	361,057	365,614
Total	**75,013,754**	**75,013,754**	**74,095,054**	**74,099,611**

5b. Non-voted expenditure (financed by the National Insurance Fund)

	2017-18		2016-17	
	Core department	Departmental group	Core department	Departmental group
	£000	£000	£000	£000
State Pension	93,639,375	93,639,375	91,452,635	91,452,635
Employment and Support Allowance	4,691,062	4,691,062	4,666,446	4,666,446
Bereavement benefits	501,215	501,215	556,766	556,766
Maternity Allowance	427,182	427,182	435,862	435,862
Jobseeker's Allowance	222,846	222,846	263,055	263,055
Christmas Bonus	125,998	125,998	126,370	126,370
Incapacity Benefit	10,447	10,447	22,466	22,466
Total	**99,618,125**	**99,618,125**	**97,523,600**	**97,523,600**

6. Non-cash expenditure

	Note	2017-18 Core department £000	2017-18 Departmental group £000	2016-17 Core department £000	2016-17 Departmental group £000
Non-cash purchase of goods and services					
Auditor's remuneration		1,443	1,443	1,438	1,438
Loss on disposal of assets		11,634	12,091	1,410	1,628
Revaluation (gain)/loss		(1,451)	(2,354)	2,968	2,582
ESF foreign exchange loss		2,624	2,624	21,427	21,427
Movement on pension liability		(72,576)	(72,576)	(2,394)	(2,394)
		(58,326)	**(58,772)**	**24,849**	**24,681**
Depreciation, amortisation and impairment					
Depreciation and amortisation of non-current assets	9 & 10	331,798	342,410	293,688	302,240
Amortisation of prepayments		5,000	5,000	5,000	5,000
Impairment of non-current assets		24	398	175	239
Movement in impairment of receivables		(205,461)	(205,456)	(204,364)	(202,581)
		131,361	**142,352**	**94,499**	**104,898**
Provision expense					
Movement in provisions	17	1,390,799	1,397,226	176,018	181,544
Borrowing costs of provisions	17	121,609	121,609	99,701	99,701
		1,512,408	**1,518,835**	**275,719**	**281,245**
Total		**1,585,443**	**1,602,415**	**395,067**	**410,824**

7. Income

	2017-18 Core department £000	2017-18 Departmental group £000	2016-17 Core department £000	2016-17 Departmental group £000
Operating income				
HSE income	-	91,211	-	90,709
Pension levy receipts	86,867	86,867	81,426	81,426
Other income	85,053	77,601	35,374	34,452
Mesothelioma recoveries	58,830	58,830	52,968	52,968
Income from other government departments	30,583	30,583	34,845	34,845
CFER income	15,500	15,500	20,040	20,040
Benefit income	7,804	7,804	8,468	8,468
ESF income	1,687	1,687	478	478
Total operating income	**286,324**	**370,083**	**233,599**	**323,386**
Finance income				
Investment income	34,137	34,159	29,102	29,120
Non-cash				
ESF foreign exchange gain	3,101	3,101	-	-
Total financial income	**37,238**	**37,260**	**29,102**	**29,120**
Total income	**323,562**	**407,343**	**262,701**	**352,506**

8. Tax Credit receivables - in year of transfer

	2017-18		2016-17	
	Core department	Departmental group	Core department	Departmental group
	£000	£000	£000	£000
Non-cash				
Gross Tax Credit transfer	(187,522)	(187,522)	(145,623)	(145,623)
Tax Credit transfer impairment	143,454	143,454	106,216	106,216
Total	**(44,068)**	**(44,068)**	**(39,407)**	**(39,407)**

The department has taken on the debt associated with HM Revenue and Customs personal Tax Credits for customers who have made a claim to Universal Credit (UC) and have existing Tax Credits debt or have migrated from Tax Credits to UC. The debt started to transfer in April 2016 and is planned to continue to transfer over the coming years as more customers move to UC. See note 1.13 for further information.

9. Property, plant and equipment

Consolidated property, plant and equipment

	Land and buildings	Leasehold improvements	Information Technology	Plant and machinery	Furniture and fittings	Motor vehicles	Payments on account and assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2017	1,831,543	31,163	286,603	43,451	11,722	4,232	66,149	**2,274,863**
Additions	4,308	2,360	76,122	3,993	33,797	586	91,049	**212,215**
Disposals	(1,690,203)	(3,610)	(28,735)	(326)	(1,182)	(660)	-	**(1,724,716)**
Impairments	-	-	(348)	-	-	-	-	**(348)**
Reclassifications	590	3,795	76,326	112	(26)	-	(82,921)	**(2,124)**
Revaluations	7,694	-	18	-	-	-	-	**7,712**
Transfers in	-	-	-	-	-	-	-	**-**
Transfers out	-	-	-	-	-	-	-	**-**
At 31 March 2018	**153,932**	**33,708**	**409,986**	**47,230**	**44,311**	**4,158**	**74,277**	**767,602**
Depreciation								
At 1 April 2017	1,566,314	20,390	210,876	39,003	5,977	1,558	-	**1,844,118**
Charged in year	153,374	8,914	57,553	1,154	974	472	-	**222,441**
Disposals	(1,687,596)	(3,504)	(26,974)	(326)	(1,000)	(150)	-	**(1,719,550)**
Impairments	-	-	50	-	-	-	-	**50**
Reclassifications	-	-	-	-	-	-	-	**-**
Revaluations	(2,095)	-	-	-	-	-	-	**(2,095)**
Transfers in	-	-	-	-	-	-	-	**-**
Transfers out	-	-	-	-	-	-	-	**-**
At 31 March 2018	**29,997**	**25,800**	**241,505**	**39,831**	**5,951**	**1,880**	**-**	**344,964**
Carrying amount at 31 March 2017	**265,229**	**10,773**	**75,727**	**4,448**	**5,745**	**2,674**	**66,149**	**430,745**

	Land and buildings	Leasehold improvements	Information Technology	Plant and machinery	Furniture and fittings	Motor vehicles	Payments on account and assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carrying amount at 31 March 2018	**123,935**	**7,908**	**168,481**	**7,399**	**38,360**	**2,278**	**74,277**	**422,638**
Asset financing:								
Owned	14,574	7,908	127,455	7,255	36,701	2,278	74,277	270,448
Finance leased	26,076	-	41,026	144	-	-	-	67,246
PFI contracts	83,285	-	-	-	1,659	-	-	84,944
Carrying amount at 31 March 2018	**123,935**	**7,908**	**168,481**	**7,399**	**38,360**	**2,278**	**74,277**	**422,638**
Of the total:								
Department	28,581	1,225	161,605	3,590	33,482	47	74,126	302,656
Arm's length bodies	95,354	6,683	6,876	3,809	4,878	2,231	151	119,982
Carrying amount at 31 March 2018	**123,935**	**7,908**	**168,481**	**7,399**	**38,360**	**2,278**	**74,277**	**422,638**
Cost or valuation								
At 1 April 2016	**1,805,165**	**30,990**	**287,747**	**43,209**	**10,120**	**4,307**	**9,319**	**2,190,857**
Additions	**1,723**	**126**	**18,739**	**615**	**1,615**	**858**	**64,212**	**87,888**
Disposals	**(2,674)**	**(219)**	**(23,885)**	**(558)**	**(33)**	**(933)**	**-**	**(28,302)**
Impairments	**-**	**-**	**-**	**(56)**	**(12)**	**-**	**(60)**	**(128)**
Reclassifications	**-**	**266**	**6,473**	**241**	**32**	**-**	**(7,322)**	**(310)**
Revaluations	**27,329**	**-**	**-**	**-**	**-**	**-**	**-**	**27,329**
Transfers in	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers out	**-**	**-**	**(2,471)**	**-**	**-**	**-**	**-**	**(2,471)**
At 31 March 2017	**1,831,543**	**31,163**	**286,603**	**43,451**	**11,722**	**4,232**	**66,149**	**2,274,863**
Depreciation								
At 1 April 2016	**1,422,525**	**16,078**	**204,269**	**37,381**	**5,247**	**1,553**	**-**	**1,687,053**
Charged in year	**145,532**	**4,450**	**30,634**	**2,179**	**745**	**511**	**-**	**184,051**
Disposals	**(699)**	**(138)**	**(22,752)**	**(553)**	**(15)**	**(506)**	**-**	**(24,663)**
Impairments	**-**	**-**	**-**	**(4)**	**-**	**-**	**-**	**(4)**
Reclassifications	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Revaluations	**(1,044)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,044)**
Transfers in	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers out	**-**	**-**	**(1,275)**	**-**	**-**	**-**	**-**	**(1,275)**
At 31 March 2017	**1,566,314**	**20,390**	**210,876**	**39,003**	**5,977**	**1,558**	**-**	**1,844,118**
Carrying amount at 31 March 2017	**265,229**	**10,773**	**75,727**	**4,448**	**5,745**	**2,674**	**66,149**	**430,745**
Carrying amount at 31 March 2016	**382,640**	**14,912**	**83,478**	**5,828**	**4,873**	**2,754**	**9,319**	**503,804**
Asset financing:								
Owned	**13,649**	**10,773**	**34,555**	**3,999**	**3,986**	**2,674**	**66,149**	**135,785**
Finance leased	**26,822**	**-**	**41,172**	**449**	**-**	**-**	**-**	**68,443**

	Land and buildings	Leasehold improvements	Information Technology	Plant and machinery	Furniture and fittings	Motor vehicles	Payments on account and assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
PFI contracts	**224,758**	**-**	**-**	**-**	**1,759**	**-**	**-**	**226,517**
Carrying amount at 31 March 2017	**265,229**	**10,773**	**75,727**	**4,448**	**5,745**	**2,674**	**66,149**	**430,745**
Of the total:								
Department	177,268	5,067	66,950	450	1,473	86	65,447	316,741
Arm's length bodies	87,961	5,706	8,777	3,998	4,272	2,588	702	114,004
Carrying amount at 31 March 2017	**265,229**	**10,773**	**75,727**	**4,448**	**5,745**	**2,674**	**66,149**	**430,745**

a. Cash flow reconciliation

	2017-18	2016-17
	£000	£000
Capital payables and accruals at 1 April	7,343	8,183
Capital additions	212,215	87,888
Less: leased capital additions	(30,237)	(9,153)
Capital payables and accruals at 31 March	(65,451)	(7,343)
Purchases of property, plant and equipment as per Statement of Cash Flows	**123,870**	**79,575**
Of the total:		
Department	116,111	70,957
Arm's length bodies	7,759	8,618
Total	**123,870**	**79,575**

Land and buildings

	Land[1]	Freehold buildings	Leasehold buildings	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2017	719,470	10,125	1,101,948	1,831,543
Additions	-	459	3,849	4,308
Disposals	(716,488)	(1,670)	(972,045)	(1,690,203)
Impairments	-	-	-	-
Reclassifications	-	590	-	590
Revaluations	-	-	7,694	7,694
At 31 March 2018	**2,982**	**9,504**	**141,446**	**153,932**
Depreciation				
At 1 April 2017	663,803	504	902,007	1,566,314
Charged in year	52,257	220	100,897	153,374
Disposals	(716,060)	(306)	(971,230)	(1,687,596)
Impairments	-	-	-	-
Reclassifications	-	-	-	-
Revaluations	-	-	(2,095)	(2,095)

1 Included in the land value of £719 million is £3 million of owned land which is not depreciated.

	Land[1]	Freehold buildings	Leasehold buildings	Total
	£000	£000	£000	£000
At 31 March 2018	**-**	**418**	**29,579**	**29,997**
Carrying amount at 31 March 2018	**2,982**	**9,086**	**111,867**	**123,935**
Carrying amount at 31 March 2017	**55,667**	**9,621**	**199,941**	**265,229**

Of the total:				
Department	-	(3)	28,584	28,581
Arm's length bodies	2,982	9,089	83,283	95,354
Carrying amount at 31 March 2018	**2,982**	**9,086**	**111,867**	**123,935**

Cost or valuation				
At 1 April 2016	**719,358**	**8,650**	**1,077,157**	**1,805,165**
Additions	**25**	**1,475**	**223**	**1,723**
Disposals	**(911)**	**-**	**(1,763)**	**(2,674)**
Impairments	**-**	**-**	**-**	**-**
Reclassifications	**-**	**-**	**-**	**-**
Revaluations	**998**	**-**	**26,331**	**27,329**
At 31 March 2017	**719,470**	**10,125**	**1,101,948**	**1,831,543**

Depreciation				
At 1 April 2016	**612,000**	**279**	**810,246**	**1,422,525**
Charged in year	**52,046**	**225**	**93,261**	**145,532**
Disposals	**(243)**	**-**	**(456)**	**(699)**
Impairments	**-**	**-**	**-**	**-**
Reclassifications	**-**	**-**	**-**	**-**
Revaluations	**-**	**-**	**(1,044)**	**(1,044)**
At 31 March 2017	**663,803**	**504**	**902,007**	**1,566,314**
Carrying amount at 31 March 2017	**55,667**	**9,621**	**199,941**	**265,229**
Carrying amount at 31 March 2016	**107,358**	**8,371**	**266,911**	**382,640**

Of the total:				
Department	**52,684**	**1,395**	**123,189**	**177,268**
Arm's length bodies	**2,983**	**8,226**	**76,752**	**87,961**
Carrying amount at 31 March 2017	**55,667**	**9,621**	**199,941**	**265,229**

10. Intangible assets

	Websites	Purchased Software Licences	Internally Developed Software	Payments on assets under construction	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2017	36,396	317,722	1,288,812	26,499	1,669,429
Additions	479	83,636	3,203	41,551	128,869
Disposals	-	(118,434)	(320,362)	(31)	(438,827)
Impairments	-	-	-	-	-
Transfers out	-	-	-	-	-
Reclassifications	60	(35,172)	33,064	(33,125)	(35,173)
Revaluations	357	39,792	9,874	-	50,023
At 31 March 2018	**37,292**	**287,544**	**1,014,591**	**34,894**	**1,374,321**
Amortisation					
At 1 April 2017	34,446	185,192	912,344	-	1,131,982
Charged in year	1,087	37,003	81,879	-	119,969
Disposals	-	(104,386)	(320,356)	-	(424,742)
Reclassifications	-	(699)	-	-	(699)
Revaluations	340	2,141	5,396	-	7,877
At 31 March 2018	**35,873**	**119,251**	**679,263**	**-**	**834,387**
Carrying amount at 31 March 2018	1,419	168,293	335,328	34,894	539,934
Carrying amount at 31 March 2017	1,950	132,530	376,468	26,499	537,447
Of the total:					
Department	908	165,654	335,274	34,041	535,877
Arm's length bodies	511	2,639	54	853	4,057
Carrying amount at 31 March 2018	1,419	168,293	335,328	34,894	539,934
Cost or valuation					
At 1 April 2016	35,610	245,751	1,205,849	39,654	1,526,864
Additions	-	48,944	173	44,988	94,105
Disposals	-	(16,475)	-	-	(16,475)
Impairments	-	-	-	(115)	(115)
Transfers out	-	-	(2,908)	-	(2,908)
Reclassifications	-	(4,454)	57,793	(58,028)	(4,689)
Revaluations	786	43,956	27,905	-	72,647
At 31 March 2017	**36,396**	**317,722**	**1,288,812**	**26,499**	**1,669,429**

	Websites	Purchased Software Licences	Internally Developed Software	Payments on assets under construction	Total
	£000	£000	£000	£000	£000
Amortisation					
At 1 April 2016	32,596	162,260	812,769	-	1,007,625
Charged in year	1,151	33,365	83,673	-	118,189
Disposals	-	(16,457)	-	-	(16,457)
Transfers out	-	-	(1,314)	-	(1,314)
Reclassifications	-	(97)	-	-	(97)
Revaluations	699	6,121	17,216	-	24,036
At 31 March 2017	**34,446**	**185,192**	**912,344**	**-**	**1,131,982**
Carrying amount at 31 March 2017	**1,950**	**132,530**	**376,468**	**26,499**	**537,447**
Carrying amount at 31 March 2016	**3,014**	**83,491**	**393,080**	**39,654**	**519,239**

Of the total:					
Department	1,950	128,933	376,060	25,930	532,873
Arm's length bodies	-	3,597	408	569	4,574
Carrying amount at 31 March 2017	**1,950**	**132,530**	**376,468**	**26,499**	**537,447**

Intangible asset cash flow reconciliation

	2017-18	2016-17
	£000	£000
Capital payables and accruals at 1 April	8,049	11,913
Capital additions	128,869	94,105
Capital payables and accruals at 31 March	(26,594)	(8,049)
Purchases of intangible assets as per Statement of Cash Flows	**110,324**	**97,969**
Of the total:		
Department	108,586	96,737
Arm's length bodies	1,738	1,232
Total	**110,324**	**97,969**

During 2017-18, within the category of purchased software licences, IP address assets were revalued by £33 million to fair market value based on the best estimate of market price. IP addresses with a net book value of £36.6 million were reclassified to Assets Held for Sale.

11. Financial assets

	National Employment Savings Trust Corporation	National Employment Savings Trust Corporation
	2017-18	2016-17
	£000	£000
Balance at 1 April 2017	**539,147**	**459,647**
Additions	83,600	79,500
Balance at 31 March 2018	**622,747**	**539,147**

National Employment Savings Trust Corporation (NEST)

This loan provides ongoing funding to NEST for the administration and operation of its pension scheme. NEST's scheme income and assets under management continue to grow, as scheme membership increases, and will eventually be sufficient to fund NEST's ongoing costs and repay the loan.

BPDTS Limited

The core department has also provided one of our wholly owned arm's length bodies with a £10 million loan for general working capital and investment purposes. In 2016-17 we provided £5 million and a further £5 million was provided in 2017-18. This loan is eliminated on consolidation and is not therefore reported as a departmental financial asset.

12. Commitments under non-PFI leases

Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods:

	31 March 2018		31 March 2017	
	Core department	Departmental group	Core department	Departmental group
	£000	£000	£000	£000
Not later than 1 year	188,628	193,609	12,572	16,602
Later than 1 year and not later than 5 years	633,361	645,646	61,518	65,200
Later than 5 years	647,677	654,831	47,398	47,398
Total	**1,469,666**	**1,494,086**	**121,488**	**129,200**

The department's PRIME PFI contract for the provision of serviced accommodation, came to an end on 31 March 2018. Accordingly the department has entered into new lease arrangements with landlords which have been classified as operating leases following a lease assessment exercise carried out by DVS Valuation Office Agency, members of the Royal Institution of Chartered Surveyors (RICS). This assessment of the new lease arrangements has resulted in an increase in the department's operating lease commitments.

The leases are based on standard terms and do not include renewal or purchase options. Subletting or sale of the department's lease rights, where permitted, requires the agreement of the landlord.

13. Cash and cash equivalents

	31 March 2018		31 March 2017	
	Core department	Departmental group	Core department	Departmental group
	£000	£000	£000	£000
Balances at 1 April	**(1,208,792)**	**(1,203,730)**	(1,196,062)	(1,192,952)
Net change in cash and cash equivalent balances	814,039	832,178	(12,730)	(10,778)
Balances at 31 March	**(394,753)**	**(371,552)**	**(1,208,792)**	**(1,203,730)**
Represented by:				
Cash and cash equivalents	151,165	174,366	221,442	226,613
Bank overdraft	(545,918)	(545,918)	(1,430,234)	(1,430,343)
Total	**(394,753)**	**(371,552)**	**(1,208,792)**	**(1,203,730)**

The following balances were held at:

	31 March 2018		31 March 2017	
	Core department	Departmental group	Core department	Departmental group
	£000	£000	£000	£000
Government Banking Services	(414,941)	(413,572)	(1,232,330)	(1,232,439)
Commercial banks and cash in hand	20,188	42,020	23,538	28,709
Total	**(394,753)**	**(371,552)**	**(1,208,792)**	**(1,203,730)**

The bank overdraft relates to cash-in-transit due to a timing difference between the payment being processed and the date that the customers are paid.

14. Trade receivables, financial and other assets

	31 March 2018		31 March 2017	
	Core department	Departmental group	Core department	Departmental group
	£000	£000	£000	£000
Amounts falling due within one year				
Trade receivables	60,193	89,031	56,905	80,822
Benefit overpayments	429,349	429,349	407,128	407,128
Benefit advances	65,508	65,508	47,856	47,856
Housing Benefit subsidy	199,676	199,676	208,665	208,665
Prepayments and accrued income	1,420,003	1,437,784	1,470,357	1,484,702
Social Fund loans	210,879	210,879	245,402	245,402
Tax Credit	100,794	100,794	67,526	67,526
European Social Fund	186,540	186,540	95,777	95,777
Value Added Tax	65,854	65,798	76,863	77,834
Current part of loans	6,459	6,459	6,691	6,691
Amounts due from the Consolidated Fund in respect of supply	-	-	315,242	315,242
CFERS Receivables	3,847	3,847	11,988	11,988
Other receivables	21,760	22,607	17,452	17,976
Gross receivables	**2,770,862**	**2,818,272**	**3,027,852**	**3,067,609**
Less: impairment of receivables	(225,164)	(232,289)	(183,496)	(186,873)
Net receivables	**2,545,698**	**2,585,983**	**2,844,356**	**2,880,736**
Amounts falling due after more than one year				
Benefit overpayments	2,029,140	2,029,140	2,048,131	2,048,131
Benefit advances	65,373	65,373	-	-
Social Fund loans	365,723	365,723	438,341	438,341
Tax Credit	188,480	188,480	78,097	78,097
Other receivables	4,912	5,699	4,738	6,258
Gross receivables	**2,653,628**	**2,654,415**	**2,569,307**	**2,570,827**
Less: impairment of receivables	(805,736)	(805,736)	(911,529)	(911,529)
Net receivables	**1,847,892**	**1,848,679**	**1,657,778**	**1,659,298**
Total net receivables	**4,393,590**	**4,434,662**	**4,502,134**	**4,540,034**

Amounts due from other government departments (£47 million 2016-17) is now included within the trade receivables line, and that deposits and advances (£2 million 2016-17) is now included within the other receivables line (for both under 1 year and over 1 year).

15. Trade payables and other liabilities

		31 March 2018		31 March 2017	
		Core department	Departmental group	Core department	Departmental group
	Note	£000	£000	£000	£000
Amounts falling due within one year					
Taxation and social security		46,634	51,047	44,757	48,633
Superannuation		40,681	43,789	39,879	42,946
Trade payables		166,045	168,459	141,134	143,998
Accruals and deferred income		3,631,847	3,658,097	3,151,492	3,178,357
Capital accruals	9 & 10	90,422	92,045	13,543	15,392
Bank overdrafts	13	545,918	545,918	1,430,234	1,430,343
Imputed finance lease element of on-Statement of Financial Position PFI contracts		-	2,507	110,454	112,768
Finance lease obligations		29,836	29,838	19,672	19,673
CFERs due to be paid to the Consolidated Fund – received		7,983	7,983	6,581	6,581
CFERs due to be paid to the Consolidated Fund – receivable		3,847	3,847	11,988	11,988
Amounts issued from the Consolidated Fund for supply but not spent at year end		125,320	125,320	-	-
Third party payments		44,319	44,319	36,155	36,155
European Social Fund		79,375	79,375	60,081	60,081
Other payables		17,756	18,038	14,702	15,396
		4,829,983	**4,870,582**	**5,080,672**	**5,122,311**
Amounts falling due after more than one year					
Imputed finance lease element of on-Statement of Financial Position PFI contracts		-	92,891	-	95,398
Finance lease obligations		68,255	69,654	79,778	81,177
European Social Fund		300,620	300,620	301,857	301,857
Other payables		-	-	-	19
		368,875	**463,165**	**381,635**	**478,451**
Total payables		**5,198,858**	**5,333,747**	**5,462,307**	**5,600,762**

Amounts due to other government departments (£52 million 2016-17) is now included within the Trade payables line.

16. Financial instruments

(i) Analysis of financial instruments

Our financial instruments include loans and receivables.

		31 March 2018		31 March 2017	
		Core department	Departmental group	Core department	Departmental group
	Note	£000	£000	£000	£000
Financial assets					
Loans and investments		639,206	629,206	550,838	545,838
Other receivables		221,593	252,065	138,939	164,902
Cash and cash equivalents	13	151,165	174,366	221,442	226,613
Housing Benefit subsidy	14	199,676	199,676	208,665	208,665
Benefit overpayments	14	2,458,489	2,458,489	2,455,259	2,455,259
Tax Credit	14	289,274	289,274	145,623	145,623
Social Fund loans	14	576,602	576,602	683,743	683,743
European Social Fund	14	186,540	186,540	95,777	95,777
Total		**4,722,545**	**4,766,218**	**4,500,286**	**4,526,420**
Less: impairment of financial instruments		(1,030,900)	(1,038,025)	(1,096,472)	(1,099,849)
		3,691,645	**3,728,193**	**3,403,814**	**3,426,571**
Financial liabilities					
Other payables		3,906,070	3,936,639	3,320,871	3,353,163
Bank overdraft	13	545,918	545,918	1,430,234	1,430,343
European Social Fund	15	379,995	379,995	361,937	361,937
Total		**4,831,983**	**4,862,552**	**5,113,042**	**5,145,443**

(ii) Fair value

The carrying value of trade receivables and payables less impairment is assumed to approximate their fair value. The book values of our financial assets and liabilities at 31 March 2018 aren't materially different from their fair values, so we haven't shown them separately.

(iii) Exposure to risk

Due to the largely non-trading nature of our activities and the fact that our cash requirements are met through the estimates process, we are not exposed to the same degree of financial risk as commercial business entities. Moreover, financial instruments play a smaller role in creating or managing risk than would apply to a non-public-sector body of a similar size. This means our exposure to credit, liquidity, market or interest rate risk is low.

Foreign currency risk

Due to the time delay between preparing claims and receiving funds for the European Social Fund and between advance payment and final settlement, we are exposed to movements in the Euro/Sterling exchange rate.

Benefit overpayment risk

Benefit overpayments are recorded as receivables when we have a legal right to recovery. Assumptions on the recoverability of receivable balances are reviewed on an annual basis and appropriate adjustments for impairments are made. The carrying value of benefit overpayment is impaired at its fair value based on our assessment of their recoverability. We are able to recover from benefits and pensions as well as applying direct earnings attachments, which reduces the credit risk that we are exposed to. Overpayments are only written off when we have exhausted all recovery options.

17. Provisions for liabilities and charges

		31 March 2018		31 March 2017	
		Core department	Departmental group	Core department	Departmental group
	Note	£000	£000	£000	£000
Financial Assistance Scheme (FAS) provision	17a	7,564,854	7,564,854	7,282,412	7,282,412
Benefit provisions	17b	1,017,448	1,017,448	10,425	10,425
Other provisions	17c	13,597	23,188	19,909	25,781
		8,595,899	**8,605,490**	**7,312,746**	**7,318,618**

(i) Analysis by type

	Core department	Departmental group	Core department	Departmental group
FAS provision (a)	£000	£000	£000	£000
Balance at 1 April	7,282,412	7,282,412	7,210,754	7,210,754
Provided in year	372,754	372,754	161,969	161,969
Utilised in year	(211,931)	(211,931)	(189,739)	(189,739)
Borrowing costs (unwinding of discount)	121,619	121,619	99,428	99,428
Balance at 31 March	**7,564,854**	**7,564,854**	**7,282,412**	**7,282,412**

	Core department	Departmental group	Core department	Departmental group
Benefit provisions (b)	£000	£000	£000	£000
Balance at 1 April	10,425	10,425	30,622	30,622
Provided in year	1,017,448	1,017,448	10,425	10,425
Utilised in year	(10,425)	(10,425)	(30,622)	(30,622)
Balance at 31 March	1,017,448	1,017,448	10,425	10,425

	Core department	Departmental group	Core department	Departmental group
Other provisions (c)	£000	£000	£000	£000
Balance at 1 April	19,909	25,781	29,433	30,243
Provided in year	1,600	5,319	13,598	19,110
Provisions not required written back	(1,003)	(1,003)	(9,974)	(9,974)
Utilised in year	(6,899)	(6,899)	(13,421)	(13,871)
Borrowing costs (unwinding of discount)	(10)	(10)	273	273
Balance at 31 March	**13,597**	**23,188**	**19,909**	**25,781**

a. FAS provision

FAS provides assistance to members of defined benefit occupational pension schemes that were wound up under-funded when their employers became insolvent during the period 1 January 1997 to 5 April 2005. More details of the scheme can be found in the Trust Statement on pages 238 to 255.

The FAS assistance scheme provision is to provide for the liabilities arising from any FAS qualifying schemes once the assets from such schemes have transferred to government. The provision is an estimate of the current value of the liability to make payments to pensioners under the FAS scheme.

The provision is calculated by using a long term cash forecast model provided by Pension Protection Fund (PPF) who are responsible for the administration of FAS. The cash flows are then discounted, at rates provided by HM Treasury (adjusted for inflation), to give their present value at the year end.

Sensitivities for 2017-18

The FAS provision is long term and is therefore more sensitive to changes in economic and other conditions.

The table below sets out a sensitivity analysis for the most significant assumptions used to estimate the FAS provision. It illustrates the potential impact of changes in assumptions on the value of the provision.

	Original	Discount rate	Inflation rate	Mortality rate	Pension payments	Deferred pension revaluation rate
	£bn	£bn	£bn	£bn	£bn	£bn
(Changes) in assumption		0.5% decrease	0.5% decrease	10% improvement	0.5% increase p.a.	0.5% increase p.a.
Provision as at 31 March 2018	7.565	8.323	8.294	7.310	7.766	7.752
(Increase)/decrease in provision		0.758	0.730	(0.255)	0.201	0.188
Percentage change		10.07%	9.69%	(3.39%)	2.67%	2.49%

These assumptions and their impacts are explained below. Each scenario illustrates the impact on the provision from a change in one assumption, but assuming that the cash flows remain the same as the original position.

Original – this is the actual FAS Provision at 31 March 2018 and is the "baseline" position for the other scenarios.

Discount rates decrease – decrease in the discount (PES) rates by 0.5% would increase the provision by £758 million (10%).

Inflation rate decrease – a decrease in the inflation rate used to adjust the PES discount rates by 0.5% would increase the provision by £730 million (10%).

Mortality increase – a 10% increase to the mortality of pensioners, after allowing for projected mortality improvements rather than applying 10% increase to the current mortality rate, would decrease the provision by £255 million (3%).

Pension increase – Pensions increase of 0.5% per annum for all future years where the actual rates are not yet known (where the actual rates are known then these actual rates have been used) would increase the provision by £201 million (3%).

Deferred revaluation increase – A 0.5% increase in the revaluation rate in deferment of people's pensions for all future years where the actual rates are not yet known (where the actual rates are known then these actual rates have been used) would increase the provision by £188 million (2%).

There are other assumptions included in the cash flows which are not considered to be significant. These include the age difference between male and female survivors; the proportion that are married; ill health decrements and the scaling factor of members missing from the data extract.

b. Benefit provisions

These provisions arise from liabilities relating to benefit payments, these liabilities are in respect of:

- **Employment Support Allowance**
  Between 2011 and 2014 some customers were migrated from Incapacity Benefit and Severe Disablement Allowance to contributory Employment Support Allowance (ESA), without being considered for income related ESA. As a result, some of these customers have been underpaid as they have not received additional premiums, which are only payable to those on income related ESA

- **Personal Independent Payment**
  Following a decision by the High Court to quash amendments made to the Personal Independent Payment (PIP) Regulations we are revisiting cases to ensure that claimants have not lost out. In addition following a challenge to PIP assessments we have agreed to widen the basis on which we assess and will revisit cases to ensure that claimants do not lose out

- **Other benefit provisions**
  In the course of administering a complex benefit system across Great Britain it is inevitable that the department will face legal challenge which may result in liabilities. We have assessed the extent of our financial exposure arising from these liabilities and included a provision where it's estimated there to be a probable economic outflow. In order to avoid prejudicing continuing legal matters, separate disclosure is not provided. In aggregate we consider £461 million to be our best estimate of our exposure

These provisions are estimated using detailed forecasting data and established methodology.

c. Other provisions

The remaining other provisions comprise:

- early departure costs and pension commitments
- onerous contracts and refurbishment work required on vacation of leased properties
- disputes with suppliers and termination costs in respect of other contracts
- decommissioning costs
- expected future costs of Industrial Injuries Benefit permanent allowance payments to our employees who are injured at work and can't perform their job as a result

Analysis of expected timing of discounted flows

	FAS provisions		Benefit provisions		Other provisions		Total	
	Core department	Departmental group	Core department	Departmental group	Core department	Departmental group	Core department	Departmental group
	£000	£000	£000	£000	£000	£000	£000	£000
Not later than one year	229,627	229,627	851,822	851,822	4,438	13,339	1,085,887	1,094,788
Later than one year and not later than five years	854,287	854,287	165,626	165,626	1,798	1,798	1,021,711	1,021,711
Later than five years	6,480,940	6,480,940	-	-	7,361	8,051	6,488,301	6,488,991
Balance at 31 March 2018	**7,564,854**	**7,564,854**	**1,017,448**	**1,017,448**	**13,597**	**23,188**	**8,595,899**	**8,605,490**

18. Remploy Pension Scheme

The Secretary of State for the Department for Work and Pensions (the Employer) operates a defined benefit pension arrangement called the Remploy Limited Pension and Assurance Scheme (the Scheme). The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death.

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the Trustee of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective. The Statutory Funding Objective does not currently impact on the recognition of the Scheme in these accounts.

The Scheme is managed by a corporate Trustee, with directors appointed in part by the Employer and part from elections by members of the Scheme as well as independent representation from an independent trustee. The Trustee has responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustee delegates some of these functions to their professional advisers where appropriate.

The Scheme exposes the Employer to a number of risks:

- Investment risk. The Scheme holds investments in asset classes which have volatile market values and while these assets are expected to provide the real returns over the long-term the short-term volatility can cause additional funding to be required if deficits emerge
- Interest rate risk. The Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds other assets which are likely to produce different returns the value of the assets and liabilities may not move in the same way
- Inflation risk. A significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long term, movements over the short-term could lead to deficits emerging
- Mortality risk. In the event that members live longer than assumed deficits will emerge in the Scheme

There were no Scheme amendments, curtailments or settlements during the period.

Actuarial assumptions

The principal assumptions used to calculate the Scheme's liabilities include:

Principal actuarial assumptions	At 31 Mar 2018	At 31 Mar 2017
Discount rate	2.70%	2.70%
Inflation (RPI)	3.30%	3.40%
Inflation (CPI)	2.30%	2.40%
Discretionary Pension increases	2.30%	2.40%
Pre 1 April 1997 (excess over GMP) based on CPI		
Pension increases	2.30%	2.40%
1 April 1997 - 1 April 2005, LPI based on CPI		
Pension increases	3.20%	3.30%
1 April 2005 onwards, LPI based on RPI		
Excess revaluation in deferment	2.30%	2.40%
Post-retirement mortality	Remploy - specific table based on Remploy experience between 2007 and 2012 with allowance for improvements in life expectancy in line with the CMI_2015 projections subject to a long-term rate of improvement of 1.25% pa	Remploy - specific table based on Remploy experience between 2007 and 2012 with allowance for improvements in life expectancy in line with the CMI_2015 projections subject to a long-term rate of improvement of 1.25% pa
Tax Free Cash	Members are assumed to take 75% of their maximum lump sum	Members are assumed to take 75% of their maximum lump sum
Early Retirement	Non-pensioners over age 50 at 31 March 2016 retire at age 63, under age 50 retire at age 65	Non-pensioners over age 50 at 31 March 2016 retire at age 63, under age 50 retire at age 65
Net Current Assets	No Allowance	No Allowance

Under the adopted mortality tables, the approximate average (across membership categories) future life expectancy at age 65 is as follows:		
Life expectancy at age 65 of male aged 45	21.5	21.4
Life expectancy at age 65 of male aged 65	19.3	19.2
Life expectancy at age 65 of female aged 45	24.5	24.4
Life expectancy at age 65 of female aged 65	22.2	22.1

Assets

The major categories of assets as a percentage of total assets are as follows:

The current asset split is as follows:	Asset allocation at 31 Mar 2018
	Total Assets
Property	8.5%
Absolute return bonds	12.8%
Collateralised loan obligations	8.8%
Direct lending	7.7%
Semi-liquid credit	8.7%
LDI	50.9%
Cash	0.3%
Insurance Policies	1.1%
AVC Investments	1.2%
Total Asset	**100.0%**

The assets do not included any investment in shares of the Employer.

Explanation of amounts in the financial statements

Net defined benefit asset / (liability) at 31 Mar 2018 and 31 Mar 2017:	At 31 Mar 2018	At 31 Mar 2017
Fair value of assets	£837,208,000	£752,218,000
Present value of funded obligations	(£976,982,000)	(£993,299,000)
Surplus/(deficit)* in scheme	**(£139,774,000)**	**(£241,081,000)**
Impact of asset ceiling	£0	£0
Net defined benefit asset/(liability)	**(£139,774,000)**	**(£241,081,000)**
* Surplus/(deficit) shown prior to deferred taxation		

Amount recognised in Profit and Loss	Period to 31 Mar 2018	Period to 31 Mar 2017
Current service cost	£0	£0
Administration costs	£1,552,000	£1,797,000
Interest on liabilities	£26,105,000	£32,252,000
Interest on assets	(£20,643,000)	(£23,408,000)
Past service costs	£0	£0
Settlement and curtailment cost	£0	£0
Total charge to Profit and Loss	**£7,014,000**	**£10,641,000**

Re-measurements over the year	Period to 31 Mar 2018	Period to 31 Mar 2017
Loss/(gain) on assets in excess of interest	(£18,728,000)	(£96,256,000)
Experience losses/(gains) on liabilities	£4,652,000	(£21,855,000)
Losses/(gains) from changes to demographic assumptions	£0	(£96,319,000)
Losses/(gains) from changes to financial assumptions	(£14,655,000)	£212,395,000
Change in impact of asset ceiling	£0	£0
Total re-measurements	**(£28,731,000)**	**(£2,035,000)**

Reconciliation of assets and Defined Benefit Obligation

The change in the assets over the period was:

Change in value of assets	Period to 31 Mar 2018	Period to 31 Mar 2017
Fair value of assets at start (excluding AVCs)	**£741,512,000**	**£643,462,000**
Interest on assets	£20,643,000	£23,408,000
Employer contributions	£79,590,000	£11,000,000
Contributions by Scheme participants	£0	£0
Benefits paid	(£31,662,000)	(£30,817,000)
Administration costs	(£1,552,000)	(£1,797,000)
Change due to settlement and curtailment cost	£0	£0
Return on assets less interest	£18,728,000	£96,256,000
Fair value of assets at end (excluding AVCs)	**£827,259,000**	**£741,512,000**
AVC Investments	£9,949,000	£10,706,000
Fair value of assets at end	**£837,208,000**	**£752,218,000**
Actual return on assets	**£39,371,000**	

The change in the Defined Benefit Obligation over the period was:

Change in value of DB liabilities	Period to 31 Mar 2018	Period to 31 Mar 2017
Defined benefit obligation at start (excluding AVCs)	**£982,593,000**	**£886,937,000**
Current Service Cost	£0	£0
Contributions by Scheme Participants	£0	£0
Past service costs	£0	£0
Interest cost	£26,105,000	£32,252,000
Benefits paid	(£31,662,000)	(£30,817,000)
Change due to settlement or curtailment cost	£0	£0
Experience (gain)/loss on liabilities	£4,652,000	(£21,855,000)
Changes to demographic assumptions	£0	(£96,319,000)
Changes to financial assumptions	(£14,655,000)	£212,395,000
Defined benefit obligation at end (excluding AVCs)	**£967,033,000**	**£982,593,000**
AVC Investments	£9,949,000	£10,706,000
Defined benefit obligation at end	**£976,982,000**	**£993,299,000**

Reconciliation of net defined benefit liability asset)	Period to 31 Mar 2018	Period to 31 Mar 2017
Net defined benefit liability at start	**£241,081,000**	**£243,475,000**
Current service cost	£0	£0
Past service cost & settlement and curtailment cost	£0	£0
Net interest expense (income)	£5,462,000	£8,844,000
Re-measurements	(£28,731,000)	(£2,035,000)
Administration costs	£1,552,000	£1,797,000
Employer contributions	(£79,590,000)	(£11,000,000)
Net defined benefit liability at end	**£139,774,000**	**£241,081,000**

Sensitivity of the value placed on the liabilities	Approximate effect on liability
Discount rate	
Plus **0.50% pa**	(£81,580,000)
Minus **0.50% pa**	£93,640,000
Inflation	
Plus **0.50% pa**	£77,424,000
Minus **0.50% pa**	(£67,668,000)
Mortality	
Increase mortality rates by a factor of **10%**	(£38,571,000)
Decrease mortality rates by a factor of **10%**	£43,532,000

Note that the above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

The sensitivity analysis shown above was determined using the same method as per the calculation of liabilities for the balance sheet disclosures, but using assumptions adjusted as detailed above.

Risk mitigation strategies

The Trustee, in conjunction with the Employer, has reviewed the investment strategy of the Scheme. This process entailed reviewing the liability profile of the Scheme and the Scheme's investments. The Trustee has previously undertaken such a review which has resulted in the investment managers being instructed as to permissible ranges for asset allocations as set out in the Scheme's current Statement of Investment Principles. The Scheme has no other asset-liability strategies in place.

Effect of the Scheme on Employer's future cash-flows

The Employer is required to agree a Schedule of Contributions with the Trustee of the Scheme following a valuation which must be carried out at least once every three years. The next valuation of the Scheme is due as at 31 March 2019. In the event that the valuation reveals a larger deficit than expected the Employer may be required to increase contributions above those set out in the existing Schedule of Contributions. Conversely, if the position is better than expected contributions may reduce.

The Employer would normally be expected to pay contributions of £10.9 million in the year to 31 March 2019 (note the Employer has recently paid higher contributions than set out in the Schedule of Contributions).

The weighted average duration of the defined benefit obligation is approximately 19 years.

19. Incorrect payments

We are responsible for paying claimants the right benefit at the right time. Social Security legislation sets out the basis on which we calculate and pay benefits. The purpose of this legislation is to provide a regulatory framework that we operate within to support those in need.

In many instances Parliament has targeted specific benefits to claimants' needs and circumstances to ensure an efficient use of overall resources. However, this can introduce complexity and an attendant risk of fraud and error, leading to some incorrect payments. We administer over 25 benefits, ensuring that the very different conditions of entitlement are met in each individual instance. We take tackling incorrect payments seriously and pay around 97% of our £177.5 billion benefit expenditure correctly.

The latest 2017-18 preliminary statistics[2] (published in May 2018) indicate that fraud and error overpayments increased to 2.1% from 2.0%. This amounts to a monetary value of £3.8 billion overpaid from a total expenditure of £177.5 billion this year. Fraud accounts for 1.2% (£2.2 billion) of expenditure, whilst claimant error is 0.5% (£1.0 billion) and official error is 0.4% (£0.7 billion).[3]

Not all overpayments are 'lost' because we can recover from claimants. We estimate around £1.1 billion was recovered in 2017-18[4]. An additional measure takes away actual recoveries from estimated overpayments, to give an estimate of the net loss to the system.

The 2017-18 preliminary statistics estimate that the proportion of benefit underpaid has increased to 1.0% of total expenditure which equates to a monetary value of £1.7 billion, compared to 0.9% (£1.6 billion) the previous year. Claimant error accounts for 0.6% (£1.1 billion) whilst official error is 0.3% (£0.5 billion) of total expenditure.

Where we have notified about an underpayment, and where there is a legal obligation, we will pay any arrears due. Where underpayments are identified as a result of official error, we will pay arrears in full at the earliest opportunity, subject to any legal considerations. Our fraud and error strategy requires us to minimise underpayments, as failure to pay claimants their full entitlement can deprive vulnerable people what they are due.

We have developed a new fraud, error and debt strategy that takes us to 2022. This provides assurance that we have a clear sense of direction when it comes to tackling fraud and error and the debt that arises as a consequence of it. We will increasingly look to prevent fraud and error as opposed to simply detecting it once it is in the system.

We have a good understanding of what causes fraud and error. We also understand which benefits are most vulnerable. The two charts below show that the losses are not proportionate. For example, State Pension accounts for 53% of the total estimated £177.5 billion expenditure but under 3% of total fraud and error overpayments, whereas Housing Benefit accounts for around 13% of the estimated expenditure but 38% of total fraud and error overpayments.

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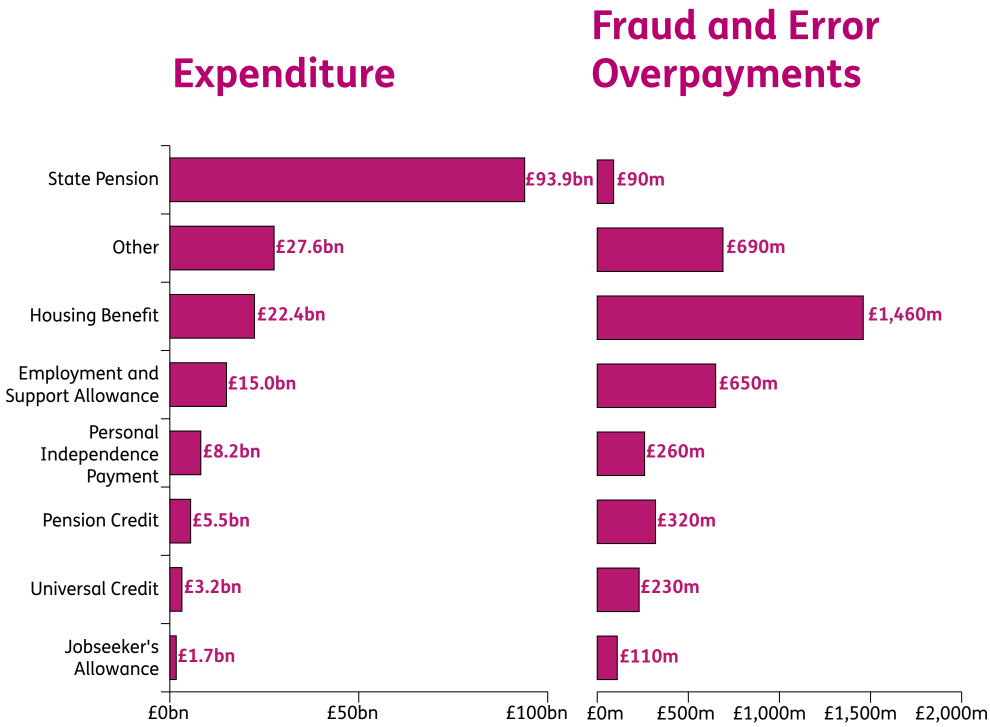
2 The department publishes fraud and error estimates twice yearly. The figures quoted in the tables are from the preliminary estimates for 2017-18 and 2016-17. These use a sample of benefit claims relating to the period October to September. The final estimates based on a sample from April to March replace the preliminary publication on www.gov.uk when published around November.

3 We define **fraud** as where claimants deliberately claim money they aren't entitled to. We split error into two categories; **claimant error**, which occurs when claimants provide inaccurate information, and **official error**, which occurs when we process information incorrectly or fail to apply rules.

4 Benefit recovery is through the department's debt management function and local authorities.

5 This method deducts money recovered this year (regardless of when the period overpaid relates to) from the money estimated to have been overpaid this year. Money recovered this year comprises in-year 2017-18 figures for directly administered benefits plus figures for Housing Benefit for the period October 2016 to September 2017. Further information can be found at www.gov.uk by searching for Fraud and Error in the Benefit System 2017-18.



1. Estimated levels of overall fraud and error including confidence intervals

		2017-18		2016-17
Overpayments				
Fraud	1.2%	(1.0, 1.6)	1.2%	(0.9, 1.5)
	£2.2bn	(1.8, 2.8)	£2.0bn	(1.6, 2.6)
Claimant Error	0.5%	(0.4, 0.7)	0.5%	(0.4, 0.7)
	£1.0bn	(0.8, 1.3)	£0.8bn	(0.6, 1.2)
Official Error	0.4%	(0.3, 0.5)	0.4%	(0.3, 0.5)
	£0.7bn	(0.5, 0.9)	£0.6bn	(0.5, 0.9)
Total Overpayments	2.1%	(1.9, 2.5)	2.0%	(1.7, 2.4)
	£3.8bn	(3.3, 4.5)	£3.5bn	(3.0, 4.1)
Underpayments				
Fraud	0.0%	(0.0,0.0)	0.0%	(0.0,0.0)
	£0.0bn	(0.0,0.0)	£0.0bn	(0.0,0.0)
Claimant Error	0.6%	(0.5, 0.9)	0.6%	(0.4, 0.9)
	£1.1bn	(0.9, 1.5)	£1.1bn	(0.7, 1.6)
Official Error	0.3%	(0.3, 0.4)	0.3%	(0.2, 0.4)
	£0.5bn	(0.5, 0.7)	£0.5bn	(0.4, 0.6)
Total Underpayments	1.0%	(0.8 1.2)	0.9%	(0.7, 1.2)
	£1.7bn	(1.4, 2.1)	£1.6bn	(1.2, 2.1)
Total Expenditure	£177.5bn		£174.1bn	

2. Jobseeker's Allowance and low income benefits

	Income Support		Jobseeker's Allowance		Pension Credit	
Overpayments	**2017-18**	**2016-17**	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Fraud	2.4%	2.4%	4.3%	4.7%	3.5%	2.3%
	£50m	£60m	£70m	£90m	£190m	£130m
Claimant Error	1.0%	1.0%	0.2%	0.2%	*1.0%	1.6%
	£20m	£30m	£0m	£0m	£60m	£90m
Official Error	0.4%	0.4%	*1.8%	0.6%	1.3%	1.3%
	£10m	£10m	£30m	£10m	£70m	£70m
Total Overpayments	3.9%	3.9%	6.3%	5.6%	5.8%	5.2%
	£90m	£90m	£110m	£110m	£320m	£300m
Total Underpayments	0.8%	0.8%	1.3%	0.6%	2.4%	2.3%
	£20m	£20m	£20m	£10m	£130m	£130m
Total Expenditure	£2.2bn	£2.4bn	£1.7bn	£1.9bn	£5.5bn	£5.8bn

2. (continued)

	Universal Credit		Housing Benefit	
Overpayments	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Fraud	*4.7%	2.5%	4.6%	4.6%
	£150m	£40m	£1,020m	£1,090m
Claimant Error	*0.8%	0.2%	1.5%	1.4%
	£20m	£0m	£340m	£320m
Official Error	1.8%	2.0%	0.4%	0.4%
	£60m	£30m	£90m	£80m
Total Overpayments	*7.2%	4.8%	6.5%	6.4%
	£230m	£70m	£1,460m	£1,490m
Total Underpayments	1.3%	1.2%	1.4%	1.3%
	£40m	£20m	£320m	£310m
Total Expenditure	£3.2bn	£1.6bn	£22.4bn	£23.5bn

3. State Pension and disability benefits

	State Pension		Employment and Support Allowance		Incapacity Benefit	
Overpayments	**2017-18**	**2016-17**	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Fraud	0.0%	0.0%	2.2%	2.2%	0.3%	0.3%
	£0m	£0m	£330m	£320m	£0m	£0m
Claimant Error	0.1%	0.1%	*1.1%	0.6%	0.9%	0.9%
	£80m	£80m	£160m	£90m	£0m	£0m
Official Error	0.0%	0.0%	1.0%	1.2%	1.2%	1.2%
	£10m	£10m	£160m	£180m	£0m	£0m
Total Overpayments	0.1%	0.1%	4.3%	3.9%	2.4%	2.4%
	£90m	£90m	£650m	£590m	£0m	£0m
Total Underpayments	0.0%	0.1%	2.6%	2.8%	0.7%	0.7%
	£30m	£60m	£390m	£420m	£0m	£0m
Total Expenditure	£93.9bn	£91.6bn	£15.0bn	£15.0bn	£0.0bn	£0.0bn

	Disability Living Allowance		Personal Independence Payment	
Overpayments	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Fraud	0.5%	0.5%	1.2%	z
	£50m	£60m	£100m	z
Claimant Error	0.6%	0.6%	1.2%	z
	£60m	£70m	£100m	z
Official Error	0.8%	0.8%	0.7%	z
	£70m	£90m	£60m	z
Total Overpayments	1.9%	1.9%	3.1%	z
	£180m	£220m	£260m	z
Total Underpayments	2.5%	2.5%	3.7%	z
	£240m	£290m	£300m	z
Total Expenditure	£9.4bn	£11.5bn	£8.2bn	£5.2bn

4. Fraud and error in other benefits

	Carer's Allowance		Interdependencies		Other Unreviewed	
	2017-18	**2016-17**	**2017-18**	**2016-17**	**2017-18**	**2016-17**
Total Overpayments	5.5%	5.5%	z	z	1.8%	1.8%
	£160m	£150m	£40m	£30m	£230m	£320m
Total Underpayments	0.1%	0.1%	z	z	1.6%	1.8%
	£0m	£0m	z	z	£200m	£330m
Total Expenditure	£2.9bn	£2.7bn	z	z	£13.1bn	£18.0bn

Notes to the tables 1-4:

1. The 2017-18 data comes from DWP National Statistics: Fraud and Error in the Benefit System: Preliminary 2017-18 Estimates. Figures are based on fraud and error national statistics for the period covering October 2016 – September 2017 and estimated benefit expenditure for 2017-18. The 2016-17 data comes from DWP National Statistics: Fraud and Error in the Benefit System: Preliminary 2016-17 Estimates. Figures are based on fraud and error national statistics for October 2015 to September 2016 and estimated benefit expenditure for 2016-17.
2. Total expenditure figures for 2017-18 and 2016-17 were the latest available for the financial year at the time of producing the fraud and error estimates.
3. All expenditure values in the table are rounded to the nearest £100 million and monetary estimates are rounded to the nearest £10 million.
4. Figures expressed as percentages (%) give the overpayments and underpayments as a percentage of the benefit paid out in the year.
5. Rows and columns may not equal the totals due to rounding.
6. Approximate 95% confidence intervals are given in table 1. This allows for statistical uncertainty caused by the sampling approach. Further uncertainties arise from imperfections in the review process. Where possible we have quantified these and incorporated them into the 95% confidence intervals.
7. Of the differences between 2017-18 and 2016-17 preliminary estimates, only figures marked with a * are statistically significant at a 95% level of confidence. Where changes are not statistically significant, differences are likely to be due to sampling variation. This suggests that these estimates are stable over time with little change year on year.
8. We review a selection of benefits for fraud and error each year. Estimates for other benefits come from previous review exercises, or proxies. Please refer to the latest National Statistics publication for further details. (See 'Benefit fraud and error estimation and uncertainty' section below for details
9. "Interdependencies" is an estimate of the knock-on effects of DLA overpayments on caring and disability premiums on income-related benefits, which depend on the rate of DLA in payment.
10. A 'z' indicates not applicable.

Benefit fraud and error estimation and uncertainty

We are rigorous in estimating levels of fraud and error. Our estimates are produced to the exacting standards of the UK Statistics Authority National statistics protocols ensuring their production is independent of departmental and ministerial influence.

Our strategy for estimating the level of incorrect payments takes into account the value of the benefit, its risk profile and previous experience.

Further information on our estimation strategy can be found at https://www.gov.uk/government/collections/fraud-and-error-in-the-benefit-system (the latest National Statistics publication and the technical appendix document links towards the bottom of the webpage).

When interpreting the statistics, please bear in mind that the underpayment estimates do not include people who are entitled to benefits but who do not apply, or whose applications are incorrectly rejected.

How each benefit contributes to the overall level of overpayments

Individual benefits make varying contributions to the overall fraud and error rate, and changes in the fraud and error rate in each benefit from year to year have different impacts on the overall rate of fraud and error. The table below illustrates how each of the benefits contributes to the overall overpayment level (of £3.8 billion benefit expenditure, equating to an overall rate of 2.1%), and how changes to the overpayment rates for the individual benefits could impact on the overall overpayment figures.

Continuously reviewed	**HB**	**PC**	**ESA**	**JSA**	**UC**	**PIP**
Expenditure (£bn)	£22.4	£5.5	£15.0	£1.7	£3.2	£8.2
Overpayment rate	6.5%	5.8%	4.3%	6.3%	7.2%	3.1%
Overpayment value (£m)	£1,460	£320	£650	£110	£230	£260
Contribution to overall OP	*38%*	*8%*	*17%*	*3%*	*6%*	*7%*
Impact of a 10% change in monetary value of overpayment on the overall overpayment rate	*0.08%*	*0.02%*	*0.04%*	*0.01%*	*0.01%*	*0.01%*

Occasionally reviewed	**IS**	**IB**	**DLA**	**SP**	**CA**	**Unreviewed**
Expenditure (£bn)	£2.2	£0.0	£9.4	£93.9	£2.9	£13.1
Overpayment rate	3.9%	2.4%	1.9%	0.1%	5.5%	1.8%
Overpayment value (£m)	£90	£0	£180	£90	£160	£230
Contribution to overall OPs	*2%*	*0%*	*5%*	*2%*	*4%*	*6%*
Impact of a 10% change in monetary value of overpayment on the overall overpayment rate	*0.01%*	*0.00%*	*0.01%*	*0.01%*	*0.01%*	*0.01%*

For example, Housing Benefit (HB) currently contributes 38% of the overall overpayment value, the highest of all individual benefits. If the monetary value of overpayment on HB (currently £1,460 million) changed by 10%, this would lead to the overall overpayment rate changing by 0.08%.

Below are further details of the sensitivities around certain assumptions which contribute to the fraud and error estimates. The first is on loss of claimant contact, which is one of the key assumptions for the estimates for Housing Benefit, which, as the table above shows, is the benefit which tends to have the largest bearing on the overall estimates. Loss of claimant contact is also a key assumption for Universal Credit, as is a new assumption for this year's estimates, relating to the increase in the full service caseload.

Cannot review and loss of claimant contact adjustment uncertainty

A case is classified as loss of claimant contact (LoCC) when contact with the claimant is lost and they do not engage with the full review process. This can either be through not being available to complete the review or requesting that their claim to benefit is withdrawn.

Some claimants may fail to engage due to fraudulent activity that they know will affect their entitlement benefit. Other claimants may have different reasons for not engaging which do not affect their entitlement. Whether or not a case should be classed as being fraudulent or not hinges on why the claimant failed to engage in the review process. The lack of contact means that there is little information available to determine if each case should be categorised as fraud or not.

If contact with the claimant is lost during the review process then the claimants' benefit is terminated and a 'whole award' fraud error is recorded. However, for Housing Benefit (HB) and Universal Credit (UC), benefit specific assumptions are made to refine this methodology and make appropriate adjustments.

Housing Benefit assumption

The cases in the HB sample that have an LoCC error are checked after three months (an appropriate amount of time for the claimant to action the reinstatement of their benefit) to see whether the benefit has been reinstated. If the claimant has had their benefit reinstated at either the same entitlement or a higher entitlement, then the case is considered to be 'benefit correct', meaning that the previous categorisation of fraud is incorrect. The monetary values for LoCC errors on HB are adjusted to account for this.

Due to the publication schedule of the fraud and error statistics, it is not possible to check the cases that were reviewed during the latest six months of the sampling period that feeds into the published statistics. Since the adjustment is not based on all cases in the current sample, a rolling average is used, including data from April 2015 onwards; this is updated as each new six months' worth of cases are checked. It is assumed that the level of benefit reinstatement in the sample is representative of the population.

For the 2017-18 preliminary estimates, 21% of LoCC cases were found to be 'benefit correct'. The monetary values for LoCC errors were thus adjusted downwards by this amount. The previous publication (2016-17 final estimates) had an adjustment of 19%.

The table below illustrates the effect of altering this adjustment factor, to demonstrate the sensitivity of the LoCC assumption. For the purpose of this sensitivity analysis, it has been assumed that the effects of all other adjustments in the HB process remain constant when the LoCC adjustment is changed.

	LoCC MVFE – reinstated (£)	LoCC MVFE – overpayments (£)	LoCC – overpayments (%)	Total HB overpayments (%)
(No adjustment) 0%	£0m	£210m	0.9%	6.7%
(Adjustment 50% lower) 10.5%	£20m	£190m	0.8%	6.6%
(2016/17 adjustment – 2% lower) 19%	£40m	£170m	0.7%	6.5%
(Central estimate) 21%	£40m	£160m	0.7%	6.5%
(2% higher) 23%	£50m	£160m	0.7%	6.5%
(Adjustment 50% higher) 31.5%	£70m	£140m	0.6%	6.4%
(Double adjustment) 42%	£90m	£120m	0.5%	6.3%

Note: The MVFE illustrated in the table is rounded to the nearest £10m

For example, if the adjustment was 50% lower – meaning that 10.5% of LoCC cases were found to be 'benefit correct' – the LoCC overpayment rate would increase from 0.7% (£160 million) to 0.8% (£190 million) and the total HB overpayment rate would increase from 6.5% to 6.6%. If the adjustment was 50% higher – meaning that 31.5% of LoCC cases were found to be 'benefit correct' – the LoCC overpayment rate would decrease from 0.7% (£160 million) to 0.6% (£140 million) and the total HB overpayment rate would decrease from 6.5% to 6.4%.

Universal Credit assumption

Further investigations into Universal Credit (UC) sample cases where an effective review was not completed identified that 20% of cases had sufficient evidence to support a suspicion of fraud. Therefore, the final 2015/16 national statistics, published in December 2016, incorporated a revised methodology where the UC estimates have been split into 'reviewed' and 'cannot review' cases.

Reviewed cases are based on the completed measurement data, and cannot review cases are based on a number of assumptions. An assumption of 20% is used for the estimated level of fraud for cannot review cases where there were no mitigating circumstances.[6]

This assumption has continued, however it is worth noting that as the UC live service caseload reduces and full service measures are introduced, this assumption will diminish, and it will be revisited as part of full service methodology development.

The following table shows the 2017-18 preliminary estimates based on the central (20%) assumption and three alternative scenarios to illustrate the sensitivity of the estimates to varying the level of assumed fraud within the cannot review, no mitigating circumstance group.

		Claimant Error	Fraud	Official Error	Total	MVFE
2017/18 Preliminary Estimate	Cannot Review **without** Mitigating Circs	0.8%	20.0%	1.8%	22.5%	***£20m***
	Total Overpayments	**0.8%**	**4.7%**	**1.8%**	**7.2%**	***£230m***
10% Fraud Assumption	Cannot Review **without** Mitigating Circs	0.8%	10.0%	1.8%	12.5%	***£10m***
	Total Overpayments	**0.8%**	**4.4%**	**1.8%**	**6.9%**	***£220m***
50% Fraud Assumption	Cannot Review **without** Mitigating Circs	0.8%	50.0%	1.8%	52.5%	***£50m***
	Total Overpayments	**0.8%**	**5.6%**	**1.8%**	**8.2%**	***£270m***
75% Fraud Assumption	Cannot Review **without** Mitigating Circs	0.8%	75.0%	1.8%	77.5%	***£80m***
	Total Overpayments	**0.8%**	**6.4%**	**1.8%**	**8.9%**	***£290m***

Note: The MVFE illustrated in the table is rounded to the nearest £10 million. The total overpayments may not sum to the total % due to rounding.

Universal Credit estimate uncertainty

Universal Credit (UC) live service is an intermediary system used to administer the majority of UC claims to date, predominantly single unemployed jobseekers, until a new full online service is rolled out. The online system referred to as full service will be open to all UC claimant types and will result in the 6 legacy benefits closing to new claims.

6 Mitigating circumstances are cases where information is available on DWP systems to indicate why the claimant may not have engaged in a review. In most cases, this is where the claimant has moved into paid work following the assessment period under review. Given that a full review was never completed, it is assumed that these cases will have a similar level of fraud and error as reviewed cases.

The live service system closed to new claims in December 2017, and the full service system will be nationwide from December 2018. Migration of all remaining legacy benefit claimants to UC will commence in 2019 and complete by 2023.

The UC fraud and error estimates in the published national statistics are based on data sampled solely from live service claimants. Until full service measurement data is available, it has been assumed that the level of fraud and error in full service cases is a similar level to live service.

Measurement to estimate fraud and error for full service claimants started in October 2017. The final 2017-18 fraud and error estimates, due to be published in late autumn 2018, are planned to be based on both UC live service and UC full service. However, due to the small number of UC full service cases in the sample, we do not expect it will be possible to publish robust estimates for the UC full service separately in autumn 2018. We plan to publish fraud and error estimates for UC full service separately for the first time in spring 2019, within the preliminary 2018-19 fraud and error national statistics.

It is forecast that across the whole of 2017-18, on average 55% of the UC caseload was administered through the live service system and 45% via the full service system. The level of fraud and error reported in the latest statistics is 7.2%. If the level of fraud and error in full service cases were different to this, the overall fraud and error rate and the amount of expenditure over or underpaid (MVFE) would be impacted.

The table below presents different scenarios for the level of fraud and error in full service, to illustrate the sensitivity of the assumption that the fraud and error in full service is a similar level to live service.

Change in assumptions from live service rate	Overpayments				Underpayments			
	Live Service	**Full Service**	**Total**	**MVFE**	**Live Service**	**Full Service**	**Total**	**MVFE**
Full Service 100% lower	7.2%	0.0%	4.0%	£130m	1.3%	0.0%	0.7%	£20m
Full Service 50% lower	7.2%	3.6%	5.6%	£180m	1.3%	0.7%	1.0%	£30m
Full Service 25% lower	7.2%	5.4%	6.4%	£210m	1.3%	1.0%	1.2%	£40m
Central Estimate – 2017/18 preliminary	7.2%	7.2%	7.2%	£230m	1.3%	1.3%	1.3%	£40m
Full Service 25% higher	7.2%	9.0%	8.0%	£260m	1.3%	1.7%	1.5%	£50m
Full Service 50% higher	7.2%	10.8%	8.8%	£290m	1.3%	2.0%	1.6%	£50m
Full Service 100% lower	7.2%	14.4%	10.4%	£340m	1.3%	2.7%	1.9%	£60m

Note: Total UC over and underpayments are based on: (live service rate * 55%) + (full service rate * 45%).
The MVFE illustrated in the table is rounded to the nearest £10 million.

If the level of fraud and error in full service was higher than that seen in live service, then we would expect the overall UC error rate and expenditure overpaid to increase. For example, if the full service rate of fraud and error was 50% higher than live service, the overall overpayment error rate for UC would increase from 7.2% (£230 million) to 8.8% (£290 million). Conversely, if the error rate in full service was 50% lower than live service, the overall overpayment error rate for UC would decrease from 7.2% (£230 million) to 5.6% (£180 million).

20. Contingent liabilities

Her Majesty's Government's (HMG) guarantee for European Union (EU) funded projects

The agreement at the December 2017 European council that the UK will continue to participate in all EU programmes during the remainder of this multiannual financial framework to the end of 2020 supersedes guarantees previously made by the Chancellor provided an overall EU exit deal is reached. In accordance with the Government Financial Reporting Manual (FReM), these guarantees need to be recognised as contingent liabilities in department's accounts until the outcome of EU exit negotiations are completed.

The activity in scope within DWP includes the department's role as managing authority for the European Social Fund (ESF) and in management of the Employment and Social Innovation Fund (EaSI). The scale of potential liability is not quantifiable at this point.

European Social Fund (ESF) repayments

The ESF audit authority is required to provide opinions on both the final 2007-13 ESF programme declaration issued by the ESF certifying authority and the 2014-20 ESF programme. This is largely based on the amount of error found during checks of claims submitted by the department, as managing authority of the ESF in England and Gibraltar. If this exceeds the EU defined 2% tolerance error rate the opinion is qualified by the ESF audit authority, with the risk that the EU can impose a financial correction.

The 2007-13 programme did not exceed the 2% error threshold in the 2016 Annual Control Report (ACR) and closure declaration. In accordance with commission guidance the audit authority gave an unqualified opinion. However, until the 2007-13 ESF programme is finally closed (and discussions with the Commission are ongoing) the department will not know the exact extent of any financial corrections imposed.

For the 2014-20 programme the opinion of the audit authority on the 2016-2017 accounts is unqualified with an error rate of 0.093% within the EU's 2% tolerance level.

Financial Assistance Scheme

Regulations came into force in April 2010 enabling the transfer to government of pension scheme assets that qualify for the Financial Assistance Scheme (FAS), along with their associated pension liabilities. As a result, the FAS pension provision (see note 17) will increase as the assets and the associated liabilities transfer. 2018-19 sees the final asset transfer estimated at £31.7 million. Once these assets have transferred it will be possible to estimate the impact on the FAS pension liability.

The FAS Trust Statement on page 238 has more details about the scheme.

Transfer of State Pensions and benefits

In 2007, regulations were put in place to allow staff employed in certain EU institutions to transfer an enhanced cash value of potential entitlement to the State Pension and other contributory benefits to the Pension Scheme for Officials and Servants of Community Institutions. Until the transfer value has been calculated, a contingent liability arises. The overall time limit is 10 months between the date of application and the transfer payment. However, the limits can be extended if needed.

We continue to receive transfer application claims from staff in certain EU institutions. Since 2007 we've received 1,592 transfer applications. 81% of these have resulted in transfer payments. At 31 March 18 there were 164 cases outstanding. The liability for these cases is estimated to be in the region of £4.9 million.

Compensation claims

Compensation payments may become due as a result of claims against us by staff and members of the public. Claims relate to employment tribunal, personal injury and Civil Service Appeals board cases. There is significant uncertainty around the estimated liability and the timing of payments. This uncertainty can fluctuate based on factors such as medical evidence received, witness statements and whether claims proceed to trial or are settled early, therefore it is not practical to disclose an estimate of the financial effect or the timing of any outflow.

The Rent Service employee pensions

The Rent Service transferred from us to the Valuation Office Agency on 1 April 2009. The Rent Service employed around 400 staff, who were members of the Local Government Pension Scheme, following the transfer they could continue to participate in the scheme. Whilst the scheme is currently balanced, if there is a pension deficit we will be liable to meet the shortfall, it is not practical to disclose an estimate of the financial effect or the timing of any outflow.

Compensation recovery

We recognise recoveries from insurance companies for compensation claims made by benefit recipients. Once the recovery is made the insurance company has the right to mandatory reconsideration or appeal within a set time period. If the reconsideration or appeal is successful recoveries are refunded to the insurance company. Analysis of existing data suggests that it is reasonable to recognise a contingent liability of £5 million for successful mandatory reconsideration or appeals.

Legal cases

Contingent liabilities are liabilities that occur either

- because there is a **possible obligation** that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the organisation or
- because there is a **present obligation** that is not recognised because it is not probable that a payment will be required to settle the obligation or the amount of the obligation cannot be measured sufficiently reliably.

The legal cases (judicial reviews and appeals) included in this note all relate to **possible obligations** where the department is facing legal challenge to the policy behind the legislation through the courts and the outcomes depend on the court rulings. As at 31 March 2018 the department estimates the value of this contingent liability in aggregate to be £26 million. Further disclosure of the details of the cases are not provided as, in accordance with IAS 37 (paragraph 92), the department considers that the disclosure of values for any legal contingent liabilities could be expected to seriously prejudice on-going litigation.

Trade union claim

The department faces a claim for damages from Public & Commercial Services Union (PCS) following a High Court ruling in 2016 that the department had breached employment contracts by removing the facility to make automatic deductions from pay for trade union subscriptions. A court date is set for October 2018. The outcome of the claim and the size of any potential payment are uncertain. Full information has not been disclosed because to do so might prejudice the upcoming court case.

Supplier disputes

We have contingent liabilities arising from payments that may become due as a result of disputes with suppliers following expiry of accommodation and print contracts. The disputes are about the extent to which the department is indemnified against possible claims, amounts payable for equipment, and the amounts payable following early contract termination. Full information has not been disclosed because to do so might seriously prejudice the position of the department.

Pension Protection Fund (PPF) compensation

The FAS provision does not include any increase to FAS compensation payable to individuals if the judgment from the European Court of Justice follows the opinion of its Advocate General (given in April 2018) in respect of a directly effective minimum individual level of insolvency protection. This judgement relates to PPF compensation and it is not possible to establish the extent of any financial impact on the FAS provision until judgment has been handed down and there is clarity on the scope of any further compensation obligations.

21. Related party transactions

We sponsor the arm's length bodies listed in 'Corporate governance' on page 92. These include 3 public corporations: Pension Protection Fund, National Employment Savings Trust and Office for Nuclear Regulation.

In addition we have had a significant number of transactions with other government departments. Most of these transactions have been with HM Revenue and Customs, Department for Digital, Culture, Media and Sport, Department for Communities, Ministry of Justice, Cabinet Office, Department of Health and Social Care, Government Legal Department, and the Scottish Government. We also have transactions with other public bodies such as local authorities.

No minister, board member, key manager or other related party has undertaken any material transactions with the department during the year.

Details of remuneration for key management personnel can be found in the remuneration and staff report within the accountability report.

22. Events after the reporting period

There were no events after the reporting period.

The Accounting Officer authorised these financial statements for issue on 28 June 2018.

Financial Assistance Scheme Trust Statement

Financial Assistance Scheme Trust Statement

Foreword

Introduction

The Financial Assistance Scheme (FAS) helps members of defined benefit occupational pension schemes that wound up under-funded when their employers became insolvent from 1 January 1997 to 5 April 2005, before the introduction of the Pension Protection Fund (PPF).

In September 2016 FAS closed to notifications from scheme trustees of any schemes whose members may have qualified for financial assistance. By that time, 1,321 schemes had been notified to FAS as potentially eligible. Of these:

- 239 proved on investigation not to be eligible
- 41 schemes would have been eligible for assistance but were found to be funded sufficiently to be able to wind up by purchasing annuities in the insurance market which fully covered the assistance promised to members
- 1,038 proved to be eligible and proceeded to qualification
- 3 schemes are still under investigation by the FAS scheme manager (the board of the PPF) awaiting further information from the schemes' trustees in order to decide whether they qualify for assistance

Performance for the year

The 1,038 schemes that have qualified for assistance from FAS fall into 2 categories, 541 schemes classified as "FAS1" and 497 as "FAS2".

FAS1 schemes are schemes that purchased annuities in the insurance market with the assets available to trustees, but where these assets were insufficient to meet the level of benefits promised by FAS. FAS therefore pays a "top-up" amount, in addition to the annuity payments made by insurers, to each FAS1 member on retirement to bring the total benefit up to the promised assistance level. Occasionally, when completing the winding-up, trustees have residual assets remaining, for example, if they have overestimated the reserves required to pay final winding-up expenses. It is generally not economic to allocate the small amounts of cash to the annuities already purchased and the trustees surrender their residual assets to the government.

All 541 FAS1 schemes, with an estimated total membership of nearly 75,000, have now completed winding-up, as the one final FAS1 scheme remaining in the pipeline at the beginning of the year transferred during the year.

Following a review by the Government Actuary's department in 2007, the government passed amending regulations which prevented any further FAS qualifying schemes from purchasing annuities in the insurance market. The trustees of these FAS2 schemes are required to surrender all of their assets to the government which then makes a single (usually monthly) payment to each FAS2 member on retirement representing their full assistance entitlement. A proportion of this assistance payment is backed by the assets which have been surrendered to government, but in most cases an additional top-up payment is also required, which is funded from general taxation in the same way as FAS1 top-up payments.

496 FAS2 schemes, with an estimated total membership of over 94,000, have completed winding-up and surrendered their assets to government, leaving just one final scheme (around 2,000 members) yet to complete the process. Note 2 to the financial statements gives details of the number of schemes transferred (21) and the value of assets collected (£96 million) in the current year.

This Trust Statement is prepared to present the value of the net assets surrendered to the department by both FAS1 and FAS2 schemes. “Net assets” in this context may include current liabilities for final winding-up costs incurred by the trustees prior to surrender where FAS pays the bills after the surrender has been completed.

When these schemes complete their winding-up, the department collects all their assets and where these assets are in cash, or generate income in cash, the department transfers this cash to the Consolidated Fund. Since inception, cash totalling almost £1.8 billion has been transferred to the Consolidated Fund.

The Trust Statement is the appropriate format of financial statement for this activity, since the department is acting as agent for the Consolidated Fund and not on its own account.

However, the assistance payable to qualifying FAS members, totalling £217.4 million for the year ended 31 March 2018, is not included within this Trust Statement. The department’s Statement of Comprehensive Net Expenditure discloses the £211.9 million payable to beneficiaries in Great Britain and overseas; while £5.5 million, payable to beneficiaries resident in Northern Ireland, is disclosed within the equivalent Statement for the Northern Ireland Assembly. Similarly, the FAS provision, representing the estimated present value of assistance payable in the future to the current total of 156,800 FAS members, both in-payment and deferred, and amounting to £7.809 billion as at 31 March 2018, is not included within this Trust Statement. The department’s Statement of Financial Position discloses a provision valued at £7.565 billion relating to beneficiaries resident in Great Britain and overseas; and the equivalent Statement for the Northern Ireland Assembly discloses a provision valued at £0.244 billion relating to beneficiaries resident in Northern Ireland.

The future FAS

FAS is now closed to notifications from scheme trustees of any schemes whose members may have qualified for financial assistance. The board of the PPF, as FAS Scheme Manager, is proceeding to obtain further information in order to decide whether the 3 notified schemes, where the board currently has insufficient information, do qualify for financial assistance or should be rejected. For any schemes which do successfully qualify, the board will proceed to develop plans with the scheme trustees to complete the wind up and transfer process as quickly as possible.

As at 31 March 2018, the board was also managing 1 final FAS2 qualifying scheme still in the pipeline through to wind up and transfer. The scheme completed transfer in the 2018-19 financial year.

Once all scheme transfers are completed, the requirement for any future Trust Statements to be prepared and audited will be reviewed by the department and HM Treasury.

Statement of Principal 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 in respect of the Trust Statement and of its revenue and expenditure 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 (FReM) 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 FReM have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going-concern basis

HM Treasury has appointed me, the Permanent Secretary, as Accounting Officer with overall responsibility for the preparation of the Trust Statement.

The responsibilities of an accounting officer are set out in Managing Public Money, published by HM Treasury. These include responsibility for the propriety and regularity of the public finances for which the accounting officer is answerable, and responsibility for keeping proper records and for safeguarding the assets of the department or non-departmental public body for which the accounting officer is responsible.

As far as I am aware, there is no relevant audit information of which the FAS Trust Statement's auditors are unaware, and I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

I confirm that the Trust Statement as a whole is fair, balanced and understandable and that I take personal responsibility for the Trust Statement and the judgments required for determining that it is fair, balanced and understandable.

Governance statement

Our governance statement, covering both the departmental accounts and the Trust Statement, is shown on page 104.

The certificate and report of the Comptroller and Auditor General to the House Of Commons

Opinion on financial statements

I certify that I have audited the financial statements of the Financial Assistance Scheme Trust Statement for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the Financial Assistance Scheme Trust Statement gives a true and fair view of the state of affairs of Financial Assistance Scheme as at 31 March 2018 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Financial Assistance Scheme in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the audit of the financial statements

As explained more fully in the Statement of Principal Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Financial Assistance Scheme's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Financial Assistance Scheme's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report and Foreword to the Trust Statement, other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the information given in the Performance Report, Accountability Report and Foreword to the Trust Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

Date 28 June 2018

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

Statement of Revenue, Other Income and Expenditure

for the year ended 31 March 2018

	Note	2017-18 £000	2016-17 £000
Revenue			
Assets collected from pension schemes	2	97,512	88,381
Total revenue		**97,512**	**88,381**
Other income			
Investment income	3	9,344	7,481
Change in fair value of investments	4	(13,853)	(2,019)
Total other income		**(4,509)**	**5,462**
Total revenue and other income		**93,003**	**93,843**
Total expenditure			
		-	-
Net revenue for the Consolidated Fund			
		93,003	**93,843**

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes on pages 247 to 255 form part of this statement.

Statement of Financial Position

as at 31 March 2018

	Note	31 March 2018 £000	31 March 2017 £000
Non-current assets			
Financial assets – annuity policies	4	128,569	132,754
Financial assets – other	4	2,842	2,522
Total non-current assets		**131,411**	**135,276**
Current assets			
Receivables	5	408	1,225
Cash and cash equivalents	5	49,892	635
Total current assets		**50,300**	**1,860**
Total current liabilities	5	(103)	-
Net current assets		**50,197**	**1,860**
Total assets less current liabilities		**181,608**	**137,136**
Provisions for liabilities		**-**	**-**
Total net assets		**181,608**	**137,136**
Represented by			
Balance on Consolidated Fund account	6	**181,608**	**137,136**

Peter Schofield
Accounting Officer
26 June 2018

The notes on pages 247 to 255 form part of this statement.

Statement of Cash Flows

for the year ended 31 March 2018

	Note	2017-18 £000	2016-17 £000
Net cash flow from operating activities		97,788	68,649
Cash paid to the Consolidated Fund		(48,531)	(83,659)
Increase / (decrease) in cash in this period		**49,257**	**(15,010)**

Notes to the Statement of Cash Flows

A: Reconciliation of the net cash flow to movement in net funds

Net revenue for the Consolidated Fund		93,003	93,843
(Increase) / decrease in non-current assets	5	3,865	(24,760)
(Increase) / decrease in receivables and payables	5	920	(434)
Net cash flow from operating activities		**97,788**	**68,649**

B: Analysis of changes in net funds

Increase / (decrease) in cash	5	49,257	(15,010)
Net Funds at 1 April	5	635	15,645
Net Funds at 31 March	**5**	**49,892**	**635**

The notes on pages 247 to 255 form part of this statement.

Notes to the Trust Statement

for the year ended 31 March 2018

1 Statement of Accounting Policies

1.1 Basis of accounting

These financial statements have been prepared in accordance with the 2017-18 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

Where the FReM lets us choose an accounting policy, we've picked the one that we think is the most appropriate to our circumstances and which gives a true and fair view. The policies we've adopted are set out below. We've applied them consistently in dealing with items that we consider are material to the accounts.

We have prepared the Trust Statement on a going concern basis.

The income and associated expenditure contained in these statements are those flows of funds which the department handles on behalf of the Consolidated Fund and where it is acting as agent rather than as principal.

The financial information contained in the statements and in the notes is rounded to the nearest £000.

1.2 Accounting standards, interpretations and amendments

We have adopted all IFRS, International Accounting Standards (IAS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and amendments to published standards that were effective at 31 March 2018. We've also taken into account the specific interpretations and adaptations included in the FReM.

The following IFRSs have been issued but are not yet effective and we have not adopted them early. We are assessing the new standards and are not currently anticipating any material impacts on our financial statements.

a) IFRS 9 Financial Instruments (effective from 1 January 2018 for the private sector) will be introduced in the 2018-19 FReM to replace IAS 39. The new standard simplifies the classification and measurement of financial assets as well as amending when and how impairments are calculated and reported, moving from an incurred loss to an expected loss model. We have considered the nature of the financial instruments we hold, particularly annuity contracts, and we do not expect this new standard to have a material impact on our statements.

b) IFRS 15 Revenue from Contracts with Customers (effective from 1 January 2018 for the private sector) will be introduced in the 2018-19 FReM to replace IAS 18 and IAS 11, unifying the concepts in these two standards into a single model to recognise revenue as a performance obligation under a contract. We have considered the main sources of income to the FAS recognised in this Trust Statement (assets collected from pension schemes and annuity income) and we do not expect this standard to have a material impact on our statements.

c) IFRS 16 Leases (effective from 1 January 2019) replaces IAS 17. Since the FAS does not hold any leases, we do not expect this standard to have an impact on our statements.

1.3 Revenue recognition

In accordance with IAS 18 (Revenue), the department recognises the transfer of assets from schemes as income if a transfer notice has been issued by the reporting date and if we judge that the transfer of those assets is probable. Net assets recognised under this policy are stated net of amounts due for professional services or other liabilities incurred by scheme trustees before the transfer of a scheme into the Financial Assistance Scheme.

Annuity income arising from insurance policies held by the FAS after transfer from pension schemes is recognised on an accruals basis.

1.4 Financial instruments

In line with IAS 39 (Financial Instruments), we recognise financial assets and liabilities when we become party to the contracts that give rise to them. We become party to such contracts in the case of FAS when schemes transfer into FAS assets other than in the form of cash, for example, scheme annuity contracts. For these annuity contracts, FAS takes over from scheme trustees the right to receive the regular annuity income from the annuity provider, and also takes on from scheme trustees all other obligations of the annuity holder.

Our policy is not to trade in financial instruments.

All changes in the fair value of financial assets are recognised in the Statement of Revenue, Other Income and Expenditure. All financial assets are held at fair value, defined as follows:

Annuity contracts

We assess the fair value of these annuity contracts using actuarial techniques based on demographic and financial factors, including:

- forecasting future annuity income flows relating to the annuitants covered by the contracts
- discounting future cash flows to a net present value, which is treated as the fair value

This valuation process is carried out by qualified actuaries working in the Scheme and Member Services team of the board of the Pension Protection Fund, acting as the Scheme Manager of the Financial Assistance Scheme. The process requires the Board to use estimates and assumptions that affect reported amounts. We have agreed with the department that we will use assumptions, such as inflation rates and the discount rate to apply to cash flows generated by annuity contracts, consistent with the guidance issued by the department to the actuaries of FAS schemes valuing the same annuity contracts for the purposes of the scheme's entry into FAS[1]. The board is required to exercise judgement in the use of these estimates and assumptions, which means that actual results could differ from the reported amounts affected by these estimates and judgements.

Other financial assets

The fair value of other financial assets is defined as the estimated present value of the cash flows arising from those assets, in particular amounts payable to FAS under loan notes and the proceeds arising from the eventual sale of unit trusts and managed funds currently in liquidation.

1 Guidance on method and assumptions to use when undertaking a valuation under Regulation 22 of the Financial Assistance Scheme Regulations 2005.

Loans and receivables

The fair value of transfer-in receivables is the value of cash and current assets yet to be transferred to FAS by the trustees of schemes in respect of which a Transfer Notice has been issued (see note 1.5).

Cash and cash equivalents

Cash and cash equivalents comprise current balances with banks and similar institutions; and would include cash in hand and short term deposits with an initial maturity of three months or less if any were held. For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents are defined net of any outstanding bank overdrafts. We would include bank overdrafts in current liabilities in the Statement of Financial Position, had any been incurred.

1.5 Transfer notices

Schemes exit the process of being assessed for entry into the FAS by the Scheme Manager issuing a transfer notice under regulation 29 of the FAS Regulations 2005 (SI2005/1986). This notice means the government assumes responsibility for the scheme, so that all the property, rights and liabilities of the scheme are transferred to the FAS. The following accounting policies apply to this transfer of assets and liabilities:

- Cash, insurance contracts and other investment assets are transferred to the legal ownership of the government at fair value as at the effective date of the transfer notice. “Fair value” carries the same meaning as in note 1.4 governing the valuation of financial instruments
- Current assets and current liabilities are transferred to the FAS at fair value. Receivables for which recovery is probable are recognised on an accruals basis

2 Assets collected from pension schemes

		2017-18	2016-17
		£000	£000
FAS 1 scheme assets transferred	(i)	1,329	610
FAS 2 scheme assets transferred	(ii)	96,183	87,771
Total assets collected from pension schemes		**97,512**	**88,381**

(i) FAS1 schemes are schemes that have previously purchased annuities in the insurance market and, when they complete winding up, surrender their residual assets to the government if they have any assets remaining. These residual assets arise when, for example, the scheme trustees overestimate the reserves required to pay final winding-up expenses and it is not economic to allocate the small amounts of cash to the annuities already purchased.

(ii) FAS2 schemes are schemes that have been prevented by regulation from purchasing annuities in the insurance market and, when they complete winding up, surrender all of their qualifying assets to the government. In most cases, trustees sell their assets prior to transfer in order to transfer cash to FAS. In a minority of cases, trustees hold illiquid assets (such as annuity contracts) which cannot be sold and which are transferred to FAS in specie.

During 2016-17, the board of the Pension Protection Fund, as FAS Scheme Manager, succeeded in transferring 11 qualifying FAS2 schemes into FAS. In the period to March 2018, 21 FAS2 schemes were transferred into FAS, but the schemes had on average much lower asset values to transfer into FAS. So the increase in the volume of scheme transfers did not generate a similar increase in the value of scheme assets collected.

3 Investment income

Substantially all the investment income disclosed in the Statement of Revenue, Other Income and Expenditure is income from annuity policies. One of the Scheme's operating bank accounts is interest-bearing, but interest income earned during the year was minimal.

4 Financial assets

	31 March 2018	31 March 2017
	£000	£000
Balance at 1 April	135,276	110,516
Asset transfers	10,352	27,143
Redemption of loan notes	(364)	(364)
Change in fair value	(13,853)	(2,019)
Balance at 31 March	**131,411**	**135,276**

a) The financial assets consist largely of annuity policies. The change in the assessed fair value of those policies over the year particularly reflects:

- changes in the rates used to discount future annuity income flows to a net present value
- the actual mortality experience of FAS annuitants compared to previous assumptions
- annuity income received from insurers

The movement in annuity policy values can be summarised as follows:

	31 March 2018	31 March 2017
	£000	**£000**
Balance at 1 April	132,754	107,621
Asset transfers	9,646	27,143
Change in fair value	(13,831)	(2,010)
Balance at 31 March	**128,569**	**132,754**

As described in the Statement of Accounting Policies, note 1.4, the reported value of these annuity contracts is significantly affected by the estimates and assumptions used by the Board of the PPF, acting as FAS Scheme Manager. We have agreed with the department that we will use assumptions, such as inflation rates and the discount rate to apply to cash flows generated by annuity contracts, consistent with the guidance issued by the department to the actuaries of FAS schemes valuing the same annuity contracts for the purposes of the scheme's entry into FAS[2]. The guidance covers estimates and assumptions about

- the rate by which future cash flows should be discounted to a net present value (which is treated as the fair value)
- interest rates and inflation rates, which will impact the rates by which annuity income is estimated to increase in future years
- annuitant mortality, which will impact estimates of when annuity cash flows will cease on the death of the individual annuitant, and whether spouses' or dependents' annuities will come into payment

We believe the guidance issued by the department remains an appropriate basis to value annuity contracts for the purposes of the FAS Trust Statement because it is designed to estimate how market participants – the bulk annuity providers who are the counterparties to the contracts – would price the contracts.

The board of the PPF, as FAS Scheme Manager, uses appropriately qualified and independent actuarial staff to apply these estimates and assumptions, and to perform these calculations, and ensures that they comply with all relevant professional and technical guidance when they carry out this work.

The fair value of the annuity contracts disclosed in these financial statements is very sensitive to these estimates and assumptions, and different estimates and assumptions would result in a different fair value being disclosed. It is not our policy to trade in these contracts, but to hold them and collect the annuity income for as long as the individual annuitants covered by these contracts survive. We estimate we will hold these contracts for very many years into the future, and the total income that we receive over this long period will differ from

2 Guidance on method and assumptions to use when undertaking a valuation under Regulation 22 of the Financial Assistance Scheme Regulations 2005.

the total we have estimated in calculating the net present value disclosed in these statements. It will differ because interest rates and inflation rates differ from our estimates, so that annuities in future increase at different rates; and because annuitants will die at rates different to those we have assumed and annuities will terminate earlier or later than we have estimated.

The table below sets out a sensitivity analysis for the most significant assumptions used to estimate the value of these annuity contracts. It illustrates the potential impact of changes in assumptions on the value of the contracts.

	Base assumption	Discount rate assumption +0.5% pa	RPI/CPI assumption +0.5% pa	Mortality assumption + 1 year age rating
Value	£128.6m	£122.9m	£129.6m	£121.5m
Movement from base		(£5.7m)	+£1.0m	(£7.1m)

Base assumption – This is the actual valuation of the annuity contracts as at 31 March 2018 using the core assumptions. It is used as the "baseline" position for the other scenarios, where other than the specified change, all other assumptions and cash flows remain equal.

Discount rate increase – If discount rates increased by 0.5% over the baseline assumption, then the valuation would decrease by £5.7 million (4.5%) because future cash receipts are discounted to a present value at a higher rate.

Inflation rate increase – An increase in inflation of 0.5% over the baseline assumption would increase the valuation by £1.0 million (0.7%) because future cash receipts would increase year on year at higher rates.

Mortality assumptions – This change applies the rates of mortality for people one year older than the annuitants actually are. This would reduce the valuation of the annuity contracts by £7.1 million (5.5%) because they would die sooner and annuity income would be collected for a shorter period of time.

There are other assumptions used to value the FAS annuities which are not considered to be significant. These include the age difference between male and females and the proportion that are married.

b) Other financial assets consist of:

- loan notes from a small number of sponsoring employers of FAS qualifying schemes where the board of the PPF, as FAS Scheme Manager, was able to secure additional funding from the employer company, but payable in instalments
- a small number of holdings in unit trusts and managed funds in liquidation and which cannot at the moment be sold for cash

The movement in the value of these other financial assets can be summarised as follows:

	31 March 2018	31 March 2017
	£000	£000
Balance at 1 April	2,522	2,895
Asset transfers	706	0
Redemption of loan notes	(364)	(364)
Change in fair value	(22)	(9)
Balance at 31 March	**2,842**	**2,522**

5 Financial instruments and related risks

(i) Financial Instruments by category	**31 March 2018**	**31 March 2017**
	£000	**£000**
Financial assets designated at fair value through profit or loss		
Annuity policies	128,569	132,754
Other financial assets	2,842	2,522
	131,411	**135,276**
Loans and receivables		
Cash deposits	49,892	635
Receivables	408	1,225
	50,300	**1,860**
Payables	(103)	-
Total Financial Instruments	**181,608**	**137,136**

The cash deposits can be further analysed as follows:

Cash deposits held at:	**31 March 2018**	**31 March 2017**
	£000	**£000**
Commercial banks	497	403
Government Banking Service	49,395	232
Total cash deposits	**49,892**	**635**

(ii) Financial risks

IFRS 7 'Financial Instruments: Disclosures' requires users of financial statements to be able to evaluate the nature and extent of risks arising from financial instruments and how the entity manages those risks. We outline how this affects the department below, along with how we measure and manage those risks.

a) Interest rate risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As disclosed in note 3, there are no significant interest-bearing assets or liabilities. This means that cash flows are substantially independent of market interest rates. The department therefore has not disclosed the interest profile of its financial assets and liabilities.

b) Credit risk

This is the risk that a counterparty to a financial instrument will cause us a financial loss by failing to discharge an obligation. Exposure to credit risk arises from counterparty risk on annuity policies, cash and cash equivalents, and transfer-in receivables. The department is satisfied that the credit quality of all the financial instruments exposed to credit risk is satisfactory, as the instruments consist of annuity contracts with insurance companies, receivables with pension schemes and other parties where recovery of the debt is probable. As we have not changed our assessment of the credit quality of the instruments exposed to credit risk, none of the change in fair value of these instruments is attributable to changes in credit risk.

At the reporting date, the financial assets exposed to credit risk amounted to the following:

	31 March 2018	31 March 2017
	£000	**£000**
Annuity policies	128,569	132,754
Other financial assets	2,842	2,522
Cash and cash equivalents	49,892	635
Receivables	408	1,225
Payables	(103)	-
Total	**181,608**	**137,136**

c) Liquidity risk

This is the risk that the department will find it difficult to meet obligations associated with financial liabilities arising as a result of FAS operations. These liabilities consist entirely of the current liabilities component of schemes' net assets transferred to FAS and which fall to FAS to settle. The department manages this risk by maintaining a small balance in its operating bank account in order to settle these liabilities.

6 Balance on the Consolidated Fund account

	2017-18	2016-17
	£000	**£000**
Balance on Consolidated Fund account at 1 April	137,136	126,952
Net revenue for the Consolidated Fund	93,003	93,843
Amount paid to the Consolidated Fund	(48,531)	(83,659)
Balance on Consolidated Fund account at 31 March	**181,608**	**137,136**

Accounts direction given by HM Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000.

1. The department shall prepare a Trust Statement ("the Statement") for the financial year ended 31 March 2018 for the revenue and other income, as directed by the Treasury, collected by the department as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury ("FReM") which is in force for 2017-18.

2. The Statement shall be prepared, as prescribed in appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties and other income by the department as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties insofar as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.

3. The Statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

4. When preparing the Statement, the department shall comply with the guidance given in the FReM (Chapter 8). The department shall also agree with HM Treasury the format of the Principal Accounting Officer's Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.

5. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

6. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to enable compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.

7. The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 7(2) of the Government Resources and Accounts Act 2000 shall be laid before Parliament at the same time as the department's Resource Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

Ian Bulmer
Deputy Director, Government Financial Reporting
Her Majesty's Treasury

19 December 2017

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