An analysis of DWP productivity 1997/98 – 2007/08

DWP SPEAR project team
Strategic understanding of Productivity and Efficiency based on the Atkinson Review

A report of research carried out by the Department for Work and Pensions
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Summary

This report discusses the productivity of the Department for Work and Pensions (DWP), and its predecessor, the former Department of Social Security (DSS), between 1997/98 and 2007/08.

The report builds on measures of DWP administrative expenditure and output included in the National Accounts. It assesses growth in administrative expenditure associated with social security and labour market activity separately, as these are classified separately in National Accounts.

Growth in output and productivity is assessed only for activity associated with social security administration in this report. Whereas it would be desirable to present a complete picture of the Department’s productivity, a robust assessment of growth in output associated with labour market activity is not currently available.

Whilst this report presents discussion on social security and labour market activity separately, it is important to recognise the very strong interactions that exist. Successful active labour market policies help more people make the move from welfare to work and reduce the numbers on benefit. The creation of Jobcentre Plus in 2002 brought together the advisory services for jobseekers with the management of the benefit system into a single integrated service for customers of working age.

A modernised integrated service, combined with successful interventions and programmes, such as the New Deal, have contributed to the large increases in employment and subsequent falls in benefit levels seen in recent years. Since 1997, the number of people in work has risen by 2.4 million, whilst the number of people on working age benefits has fallen by around one million.

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Substantial progress has been made towards developing a measure of output from labour market activity, based on the new Job Outcomes measure, and is discussed in this report. However, the data is not yet sufficiently mature to use for productivity growth analysis.
The Atkinson Review

This report precedes a related article to be published by the Office for National Statistics (ONS), which will discuss historic trends in the whole social security system, including activities carried out by other parts of the public sector. The ONS article is part of a series of articles published by ONS to report on progress against the recommendations of the Atkinson Review of the Measurement of Government Output and Productivity\(^2\).

The Atkinson Review’s main focus was on measuring productivity in the National Accounts. For this purpose, the Review took a narrow technical view of productivity as the volume of goods and services produced by an organisation for its customers from a given input volume. The Review recommended that public sector output should be measured by weighted indices, to allow disparate outputs to be combined. Ideally, weighting would be by social or economic value but the Review noted that this is contentious and difficult and weighting by the unit cost of producing the output would normally be more practical. However, in the absence of value weights, it strongly recommended that outputs should be adjusted for quality. It also made recommendations about the expenditure which should be included in productivity measures and how this should be deflated to remove the effects of inflation. The measures reported in this report are consistent with these recommendations.

The Atkinson Review recognised that this narrow definition does not do justice to complex Government departments with multiple objectives. It emphasised the need to set measures into context and to present other corroborative evidence – a process which they termed ‘triangulation’\(^3\). DWP also recognise the need to use a wider and more flexible set of measures for Departmental management than would be appropriate for the National Accounts. The final chapter of this report, therefore, presents triangulation evidence for the Department, including a discussion of the Department’s strategic outcomes.

The Department

The report describes the Department’s performance in delivering social security activity between 1997/98 and 2007/08. During this period the administration of social security has undergone many changes, including the transfer of functions

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\(^2\) For more information on the Atkinson Review, please see the Final Report: http://www.statistics.gov.uk/about/data/methodology/specific/PublicSector/Atkinson/final_report.asp.

\(^3\) Principle H of the Atkinson Review final report stated that: independent corroborative evidence should be sought on Government productivity, as part of a process of ‘triangulation’, recognising the limitations in reducing productivity to a single number.
between the former Department of Social Security (DSS), the DWP and other Government departments; the formation of DWP itself with a remit covering employment as well as social security; the associated creation of three new executive agencies; a significant programme of modernisation; and the introduction of a major efficiency programme, including a 30,000 reduction in headcount.

Expenditure

The recent history of the Department complicates the measurement of expenditure on social security. Firstly, DWP spends money not only on social security administration but also on employment-related activities. Costs, including most corporate and support costs, need to be apportioned between the two functions. Second, DWP was formed from two separate departments in 2001 which adds to the complexity of assigning costs to functions, especially in the period from 2000 to 2002. Finally, the Department has received significant investment funding for long-term modernisation and new policy initiatives. This investment often yields benefits over an extended time period, rather than immediately, and so it is misleading to include it when estimating productivity change over a period before all the benefits of investment have been realised.

Outputs

The outputs used in the productivity measure are those used by the Department to manage its businesses, and for resource allocation and planning, so are based on robust measurement. The unit costs used to weight the outputs (so they can be combined into a single index) are based on the Department’s activity based information system, which is also used routinely for Departmental management. This gives confidence that the measures and data are sound and appropriate.

Quality and value

The productivity measures may not fully capture additional activities and improvements in customer service now being delivered as part of the modernisation programme, leading to an underestimate of output growth. Accordingly, the DWP measures are put into the context of the overall performance of the Department. For example, evidence is presented to show that the additional expenditure improved output quality (e.g. accuracy, timeliness) and value (improving outcomes for particular client groups in response to Ministerial priorities/policies) as well as protecting benefit spend through counter-fraud initiatives.
Productivity

It is helpful to consider productivity over three separate chronological periods.

**Figure 1** Total factor productivity

1999/00 – 2001/02

Output measures are shown from 1997/98, but, as sufficiently detailed expenditure data is only available from 1999/00, productivity measures have only been presented from 1999/00 onwards. From 1999/00 to 2001/02, productivity in the narrow sense decreased, but in other respects performance improved, as a result of initiatives to improve accuracy, reduce backlogs and protect the benefit system against fraud and error.

2001/02 – 2004/05

From 2001/02, the costs of forming DWP, the creation of the new agencies and the major investment agreed in the Spending Reviews in 2000 and 2002 in return for a commitment to reform are reflected in expenditure growth. Interpretation of the productivity measure over these years is complicated by the fact that one-off investment is included in the year it is made, whilst returns may take many more years to be realised. A number of different measures of productivity have, therefore, been compared, as shown in Figure 2.
Figure 2  Comparison of productivity measures

The DWP preferred measure of productivity is the measure based on recurrent expenditure and quality adjusted output. This most closely reflects the relationship between growth in expenditure on the delivery of outputs with the growth in outputs produced. However, measures based on total expenditure, suitably adjusted for quality changes, are presented in ONS productivity articles.

These measures all imply that productivity decreased during a period of massive organisational change. This is in part because the productivity measures do not fully capture the additional activities/services being delivered. However, a temporary decrease in productivity is to be expected during a period of change, and returns from investment may take many years to be realised.

2005/06 onwards

Productivity has increased in 2005/06, partly because of headcount reductions and other efficiency savings already made. Looking forward, DWP efficiency savings are expected to be met as the earlier investments bear fruit and because DWP is committed to achieving the full 30,000 headcount reduction, resulting in considerable productivity increases.

Triangulation

The narrow view of output demonstrates what the Department has produced but not how. Although DWP has shown a technical fall in productivity during a period of major change, corroborative triangulation evidence shows that customer service, clearance times and the incidence of fraud have not suffered and in many cases have improved.
More importantly, evidence from the Department’s Public Service Agreement (PSA) targets and elsewhere shows that DWP has maintained performance against its main strategic objectives.

Employment rates have increased, and the difference between the employment rates of the disadvantaged groups (including lone parents, disabled and people aged over 50) and the overall rate has been reduced. Unemployment has fallen and significant inroads have been made into child and pensioner poverty. This is a significant achievement given the scale and pace of change which the Department has experienced.

The Department continues to implement its active labour market policies, aimed at reducing the number of people out of work. These include:

- tackling unemployment through the Jobseeker’s Allowance regime;
- tackling inactivity through a more work-focused welfare delivery system, such as the Pathways to Work pilot for people on incapacity benefit and the New Deal programmes;
- working with the private sector through New Deal options and Employment Zones; and
- increasing labour supply through making work pay – the minimum wage and working tax credits are examples.

The success of these policies, combined with the strongest labour market in a generation, means that progress is on course to meet the targets underpinning the Department’s PSA objective, ‘To promote work as the best form of welfare for people of working age, while protecting the position of those in greatest need.’
1 Introduction

In December 2003 the National Statistician, Len Cook, asked Sir Tony Atkinson to lead a review into measuring Government output and productivity. The final report of the Atkinson Review was published at the end of January 2005. Subsequently, the National Statistician established the UK Centre for the Measurement of Government Activity (UK CeMGA) within the Office for National Statistics (ONS) to implement the recommendations of the review.

This report presents Department for Work and Pensions (DWP) productivity measures developed during the Atkinson Review. These measures are important because they contribute to decision making and help ensure public accountability and transparency.

The National Audit Office in their report on ‘Progress in Improving Government Efficiency’ selected DWP’s development of a cost-weighted index as a case study of good practice in public sector productivity measurement.

The work arising from the Atkinson Review is important because of:

- the increased emphasis on accountability (through the National Accounts, Efficiency Programme reporting to the Office of Government Commerce and other means);

- the improvement it offers in terms of a strategic understanding of the outputs and productivity of DWP’s delivery business, and the prospect of contributing to genuine improvement in DWP’s efficiency/productivity;

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4 For more information on the Atkinson Review, please see the Final Report: http://www.statistics.gov.uk/about/data/methodology/specific/PublicSector/Atkinson/final_report.asp

5 http://www.nao.org.uk/pn/05-06/0506802.htm

6 The Atkinson Review recommended that ‘...the importance of accurate data on government spending for the National Accounts be recognised at the highest level, for example, by including suitable requirements in the letters of appointment of Accounting Officers and Principal Finance Officers.’
• the opportunity to bring about a shift in the agenda from ‘efficiency’ reductions to value for money; and
• the value of the underlying methodology in bringing about greater consistency in Departmental planning, performance management and decision support.

However, it is widely accepted that, even post-Atkinson, measures of productivity will never fully capture the performance of complex public services producing multiple outputs and influencing multiple outcomes. This means that measures have to be understood as proxies and estimates.

This report, therefore, discusses DWP productivity and efficiency in the context of broader objectives and outcomes, taking account of changes in the economy, demographics and in Government policy and priorities.

1.1 National accounts and Office for National Statistics productivity articles

One of the recommendations of the Atkinson Review7 stated that:

‘We recommend that ONS should continue to publish articles about outputs, inputs, deflators and productivity, commenting on data sources, methods and results, explaining limitations of different methodologies and interpreting the available data in that light.’

To date, ONS has published a number of productivity articles (two on health, and one each on education and adult social services), with plans to publish further articles in the future. A productivity article examining the administration of social security is planned for summer 2006.

This DWP report discusses the Department’s productivity/efficiency measures in the broader context of the environment in which the Department operates. It has been written to improve understanding of the social security productivity story within DWP. Although the ONS productivity article will have some overlap with this DWP report, it will also have some significant differences. These are outlined in the following paragraphs.

The ONS productivity article will cover DWP’s social security activity but not its labour market activity. However, it will also include activity delivered by local authorities and other Government departments (e.g. Housing Benefit and Child Benefit).

The ONS social security article will focus mainly on historical information, covering the period from 1997 to 20058. However, because the Department’s expenditure over recent years has featured high levels of investment that are expected to deliver

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7 Recommendation 7.4.

8 The ONS article will report on calendar years, whereas this report presents financial years.
future returns, a look ahead to 2007/08 has been included in this report. Measures excluding non-recurrent expenditure have been included here, whereas the ONS article will only present measures based on total expenditure (including recurrent and non-recurrent).

1.2 Structure of the report

Background information on DWP objectives and functions, organisational structure and history is included in Chapter 3. This explains the complexity of interpreting the DWP productivity story. A glossary is provided in Appendix A.

Chapter 4, 5 and 7 of this report compare growth between 1997/98 and 2007/08 in the measures of DWP social security input, output and productivity developed during the Atkinson Review. These output measures contribute to the assessment of growth in Government output up to 2005 published in National Accounts. Measures of output from DWP’s labour market activity are not included in this report. However, the relationship between growth in the Department’s social security and labour market activity is discussed.

Issues relating to the quality and value of outputs are discussed in Chapter 6. An adjustment taking accuracy into account is proposed.

Chapter 8 recognises that the arithmetic linking of outputs and inputs cannot tell the full story. The purpose of this chapter is to take into account changes not covered in the output line which may affect consumption of inputs and/or the production of outputs.
2 Methodology

This chapter provides an introduction to terms and definitions of relevance to the production of this report.

2.1 Classification of the functions of Government

Public spending is presented in the National Accounts in terms of international classifications, called *Classification of the Functions of Government (COFOG)*[^9].

DWP administrative activity associated with the processing/assessment and maintenance/payment of claims for benefits is covered by the Social Protection COFOG.

Department for Work and Pensions (DWP) activity associated with the wider welfare objective of promotion of work and economic opportunity is captured within the Economic Affairs COFOG. The work of the Health and Safety Executive is also contained within the Economic Affairs COFOG.

The measurement chapters of this report (Chapters 4, 5, 6 and 7) are mainly concerned with the Social Protection COFOG. The relationship with DWP labour market activity is discussed, and proposals for developing measures of the output from this activity are presented in Appendix F.

According to the final report of the Atkinson Review:

‘Social Protection is the term used in international statistical guidance for the functions of government relating to the provision of cash benefits and benefits in kind to categories of individuals defined by needs such as sickness, old age, disability, unemployment, social exclusion, and so on. In the United Kingdom, Social Protection comprises personal social services and social security.’

[^9]: Appendix B contains more detailed background on the classifications within National Accounts.
For convenience, ONS divide social protection into three sectors: adult social services; child social services; and social security\(^{10}\). These are broadly based around the relevant responsibilities in this area of the Department of Health, the Department for Education and Skills and the DWP respectively. Within the social security sector, however, activities from more than one Government Department contribute:

- Housing Benefit is delivered by local authorities\(^{11}\).
- the social security function of paying Child Benefit is the responsibility of HM Revenue and Customs.
- the administration of war pensions is the responsibility of the Veterans Agency within the Ministry of Defence.

Although DWP activities within the Child Support Agency and to produce future pension forecasts are not well described as ‘social security’, they are included by Office for National Statistics (ONS) in the social security sector for administrative convenience.

On the other hand, some Government activity that could be described as providing social protection is not currently included within the social security sector:

- the administration of Council Tax Benefit, a system of income-related reductions in local government taxes administered by local authorities, is categorised to the General Public Services COFOG as a function of tax collection\(^{12}\);
- tax credits administered by HM Revenue and Customs are also categorised as General Public Services even though they have many similarities to social security benefits.

### 2.2 Productivity and efficiency measurement

In the National Accounts, growth in output is measured and reported in terms of expenditure in a specified reference year. Actual administrative expenditure is reported elsewhere in the National Accounts. Combining this information about outputs and inputs, inferences about growth in productivity/efficiency can be drawn.

Productivity and efficiency are both concepts concerned with relating inputs to outputs\(^{13}\). However, efficiency is the output produced from a given financial value of

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\(^{10}\) The social security measure groups together a number of sub-COFOGs (e.g. unemployment benefits, state pensions, incapacity, disability and injury benefits).

\(^{11}\) This activity is included in National Accounts by the Department for Communities and Local Government and its counterparts in Scotland and Wales.

\(^{12}\) However, Council Tax Benefit administration in Scotland and Wales is allocated to the Social Protection COFOG.

\(^{13}\) ‘Efficiency and productivity in the public services’ Paul Doyle and Rebecca Ingarfield. HM Treasury.
inputs (i.e. inputs measured in nominal terms). So technically, efficiency is the ratio between outputs and the nominal cost of inputs. By contrast, productivity compares outputs with the volume of inputs – for example, headcount or input cost in real terms.\textsuperscript{14}

### 2.3 Measurement of inputs

Following National Accounts convention, the Atkinson Review advised that only Departmental Expenditure Limits (DEL) – and not Annually Managed Expenditure (AME) – should be included in productivity measures. For this reason, only administrative expenditure (DEL), and not benefit expenditure (AME), is included in this report.

Only items of relevant DEL expenditure within the following economic categories should be included:

- pay and pensions costs of staff employed;
- current expenditure on goods and services, including hire of consultants and contractors, net of any associated receipts; and
- depreciation in respect of capital assets.

Relevant DEL includes both recurrent and non-recurrent spend. To better understand the relationship between growth in input and output, non-recurrent investment spend included in the DWP expenditure series has been identified separately.

To avoid inflationary price rises being seen as a real increase in DWP expenditure, appropriate deflators have been applied to the expenditure series to remove the effect of inflation.

### 2.4 Measurement of outputs

From the early 1960s to 1998, the convention in the UK was to measure public sector output as being equal to the value of the inputs. By extension, the volume of output was measured by the volume of inputs. This convention is referred to as the output=\textit{input} convention, and reflects the difficulty in directly measuring Government services.

\textsuperscript{14} This means that paying higher prices for inputs (e.g. increasing average pay) will reduce efficiency but will not necessarily change productivity. This is because changes in input costs (such as wage and price changes) are deflated to remove the effect of inflation from productivity calculations. Any efficiency savings that reduce the number of inputs used will impact on productivity. This demonstrates that productivity and efficiency are overlapping but not identical concepts.
Since 1998, there has been a move towards direct measurement of output, and this was endorsed by the Atkinson Review. Outputs are defined by National Accounts convention as goods produced or services provided by an organisation. DWP measures accordingly consider output rather than activities (intermediate outputs) or outcomes.

DWP social security outputs have been measured directly in the National Accounts since 1998. The measures were reviewed and updated in Blue Book 2005 as recommended by the Atkinson Review. Output from labour market activity is still measured on an output=input basis in National Accounts.

Outputs are converted into a common currency by multiplying each output by the unit cost of producing it. This cost weighting allows different outputs to be compared and added together. Again, this is consistent with Atkinson Review recommendations.

2.5 Taking quality and value into account

The quality-adjustment of outputs, by giving no weight, or lower weight to outputs that do not meet quality thresholds, aims to ensure that productivity calculations take quality as well as volume of output into account. For DWP accuracy, timeliness and fraud and error measures are potential quality adjustments, as recommended in the final report of the Atkinson Review. Their use to reflect DWP social security performance is discussed in Chapter 6.

The value-adjustment of outputs, by weighting outputs to reflect their relative value, aims to ensure that Ministerial priorities/policies and social and economic value are reflected in productivity measures. No specific social security value adjustments are proposed but some potential adjustments are discussed.

The impact of a ‘real earnings’ adjustment (discussed in Chapter 6) may be used in the ONS article and is, therefore, examined in Appendix H.

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15 Recommendation 11.3 includes the following text: ‘we recommend that ONS should update the output measure for Administration of Social Security, with a wider range of benefits, accurate unit costs and weights, differentiation between new and existing claims, and quality adjustment in respect of timeliness and accuracy.’
2.6 Productivity measures

To compare growth in inputs and outputs, volumes are converted into a cost-weighted activity index which is set to 100 for a specific reference year\textsuperscript{16}. In this report 2004/05 is presented as the reference year and changes in annual input and output measures are reported relative to this.

The prime measure of productivity within the Atkinson methodology is Total Factor Productivity\textsuperscript{17}. This is calculated by dividing the quality-adjusted output by the deflated total expenditure.

\textsuperscript{16} For any given series, this conversion is done simply by dividing the values for every year in the series by the value within a specified, fixed year. This is the reference year. In other words, the index does not show absolute values for the series, but instead displays the value for each year relative to the reference year.

\textsuperscript{17} Total factor productivity here is calculated in a way that is consistent with the principles of the Atkinson Review, in that it compares outputs with total deflated, relevant administrative expenditure.
3 Context

The Department for Work and Pensions (DWP) was created after the 2001 General Election. It brought together the Department of Social Security (DSS), which was primarily responsible for the payment of social security benefits, with the employment elements from the Department for Education and Employment.

The rationale for the creation of the Department was inherent in the Government’s welfare reform agenda. Since 1997, a series of reforms have been introduced into the welfare system to tackle long-term unemployment and inactivity. Essentially, this involved a move away from a passive benefits paying system to a far more active approach, working intensively with claimants to help them back into work. Customers who had not previously been required to look for employment were offered new opportunities to join programmes to help them return to the labour market, particularly lone parents, but also people with long-term health problems and disabilities and their carers.

3.1 Departmental principles and objectives

DWP exists to deliver the Government’s welfare reform agenda through a programme of policy and operational change. Its principal strategic aim is to promote opportunity and independence for all.

The Department has five key objectives:

- ensure the best start for all children and end child poverty by 2020;
- promote work as the best form of welfare for people of working age, while protecting the position of those in greatest need;
- combat poverty and promote security and independence in retirement for today’s and tomorrow’s pensioners;
- improve rights and opportunities for disabled people in a fair and inclusive society; and
- ensure customers receive a high-quality customer service, including high levels of accuracy.
These objectives are supported by ten Public Service Agreement (PSA) targets agreed as part of the 2004 Spending Review (see Appendix C).

### 3.2 Outcomes and outputs

The objectives, and many of the PSA targets, are outcomes rather than outputs. The Atkinson Review argued that outcomes are not suitable for National Accounts productivity measurement, because they are influenced by factors outside DWP’s control and also may be reflected in Gross Domestic Product (GDP) in other ways, for example, the rise in GDP related to a rise in the employment rate will show up in the National Accounts in personal income or private sector output.

DWP’s main outputs, which contribute to these outcomes, are:

- helping people into work;
- assessing new claims for benefit;
- maintaining existing benefit claims – for example, dealing with changes in customers’ circumstances, annual uprating of payments;
- assessing and arranging the payment of child maintenance; and
- informing customers of their future pension entitlement.

It is important to understand the social outcomes which these outputs are contributing to. It is helpful to think of a life-cycle model in which reducing child poverty by the payment of benefits and child support helps to improve life chances. Child poverty is associated with lower skills, worse health and poorer labour market prospects which, in turn, leads to poverty in old age. Breaking this cycle can ensure better health and increased earnings, leading to more savings and increased quality of life in old age.

In short, DWP’s outputs contribute to a wider set of outcomes than its own strategic objectives, including health, crime reduction, financial inclusion and the economy in general. In turn, DWP’s main outcomes (poverty reduction, independence and inclusion) depend on outputs and outcomes from other areas such as skills, childcare initiatives, and the overall state of the economy.

### 3.3 Delivery of outputs

Key to the new approach after 2001 was the creation of two major new delivery agencies in April 2002:

- Jobcentre Plus, which brought together into one new agency the transactional services of the DSS (assessing entitlement and the payment of benefits) for people of working age, with active labour market regimes to help people back to work. The two were directly linked by the Government’s ‘rights and responsibilities’ agenda;
• The Pension Service, which was established to provide a tailored service for pensioner customers, based mainly round telephone contact, supplemented by a Local Service offering face-to-face contact.

At the same time, the Government was introducing reforms that would tackle poverty for today’s pensioners, and address the problem of low benefit take-up amongst this group. Evidence suggested that contributing to poor take-up was the form of the existing benefit (Minimum Income Guarantee) and the service delivery – through what was the Benefits Agency. The Government, therefore, decided to introduce a new benefit (Pension Credit) and reform the way services were delivered for pensioners.

This approach radically changed the nature of DWP’s products and the way they are delivered. There is now much more focus on the ‘added value’ activities of the Department, rather than purely transactional services.

To support this reform agenda, DWP and its predecessor departments received significant amounts of new investment in the 2000 and 2002 Spending Reviews, embarking on one of the largest modernisation and change programmes in Europe, which is still continuing.

Major changes include the rollout of the new delivery organisations, the modernisation and rationalisation of the DWP estate, the introduction of new products and policies supported by a new IT infrastructure, and the improvement of business processes, and customer service. One example is a very successful programme to encourage all benefit claimants to have their benefits paid directly into a bank account. In 2002, only 43 per cent of customers were paid by direct payment. By April 2005, nearly 97 per cent of benefit accounts were being paid by direct payment.

As part of the 2004 Spending Review, the Department was set a new efficiency challenge to realise savings of at least £960 million per annum by 2007/08, reduce the size of the workforce by 30,000 posts (from 130,000 in 2003/04), redeploy 10,000 posts to frontline roles and relocate 4,000 posts from London and the South East to other regions by 2008, whilst at least maintaining existing levels of customer service and performance. By autumn 2005, baseline headcount had been reduced by approximately 14,000, 2,700 new customer-facing posts had been filled in Jobcentre Plus and around 3,000 posts relocated from London and the South East.

Since 2002, further machinery of Government changes have taken place which have affected both DWP’s cost base and the delivery of social security outputs. These are listed in Appendix D.

Taken together these developments represent an extremely challenging programme of change, involving the creation of major new agencies, significant investment in new infrastructure, major policy initiatives, headcount reductions and machinery of Government changes.
3.4 Organisational structure

DWP delivers to customers mainly through four executive agencies: Jobcentre Plus, The Pension Service, Disability and Carers Service and the Child Support Agency. DWP also works in partnership with a range of other stakeholders in the public, private and voluntary sectors.

The four main agencies are supported by head office and enabling functions, including client directorates (responsible for policy and strategy) and finance, human resources and information and systems and technology delivery functions. Support is also provided through smaller operational units, in particular Debt Management and The Rent Service. The outputs of these support functions can be considered as contributions to the outputs of the main agencies, rather than as final outputs themselves.

Figure 3.1 shows the Department’s structure. Appendix E contains a full description of DWP organisational units and activities.
Figure 3.1  DWP structure

*Although the Appeals Service transferred to the Department of Constitutional Affairs in April 2006, this report reflects the DWP organisation during 2005/06.*
4 Inputs

4.1 Expenditure relevant to productivity calculations

In line with the Atkinson Review, Department for Work and Pensions (DWP) inputs are presented here in terms of ‘relevant’ Departmental Expenditure Limits (DEL)\(^{18}\), which only includes administrative expenditure within the following economic categories:

- pay and pension costs of staff employed (46 per cent of relevant DEL in 2004/05);
- current expenditure on goods and services (including hire of consultants and contractors) net of any associated receipts (52 per cent of relevant DEL in 2004/05); and
- depreciation costs in respect of capital assets (two per cent of relevant DEL in 2004/05).

All capital and Annually Managed Expenditure (AME) is excluded by convention. Other payments which can broadly be described as transfer payments are excluded, but are picked up elsewhere in National Accounts. For example, Housing Benefit subsidies and other payments to local authorities are excluded, and combined with local authority expenditure in National Accounts. Other exclusions are European Social Fund, New Deal payments to individuals, Remploy and other grants.

The primary data source used by the Office for National Statistics (ONS) for National Accounts purposes is the HM Treasury (PES) Database\(^{19}\). It is also the main data source used for the analysis presented here. However, the SR2004 years have been updated to reflect the current planned DWP position, using the latest forecast outturn and planned use of resources for future years.

\(^{18}\) In 2004/05, DWP relevant DEL was £6,851 million, whereas total DWP DEL was £8,678 million.

\(^{19}\) The PES database has been migrated to a new system – COINS (Combined Online Information System). This holds data in a new format, designed to improve data access and productivity reporting.
4.2 Breakdown of Department of Work and Pensions relevant expenditure by function of Government

DWP expenditure is divided between Social Protection and Economic Affairs classifications in National Accounts:

- Economic Affairs: labour market and Health and Safety Executive (HSE) activity;
- Social Protection: activity to assess/process and maintain/pay claims for benefit.

Jobcentre Plus activity spans these two classifications. Jobcentre Plus expenditure has accordingly been divided between the two on the basis of staff activity data from DWP’s Activity Based Information System. Corporate overheads are apportioned by applying the methodology used to produce Agency Financial Accounts.

Figure 4.1 shows the breakdown of expenditure in 2004/05. In this year, social security activity represented 64 per cent of the total relevant expenditure.

**Figure 4.1 DWP relevant expenditure**

![Breakdown of DWP relevant expenditure (2004/05)]

**Source:** HMT PES Database

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20 Some DWP expenditure is also included within other Classification of the Functions of Government (COFOGs), namely General Public Services and Education. However, these numbers are very small and are ignored for the purposes of this analysis.

21 Health and Safety Laboratory (HSL) activity also contributes to the science and technology measure within this COFOG.
Of the social security expenditure, 89 per cent is associated with directly measured outputs, with the remaining 11 per cent – predominately the Child Support Agency – not directly measured. This is illustrated in Figure 4.2.

**Figure 4.2 DWP social security expenditure**

<table>
<thead>
<tr>
<th>Breakdown of relevant DWP social security expenditure (2004/05)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security: State Pensions 26%</td>
</tr>
<tr>
<td>Social Security: Disability and Carers 9%</td>
</tr>
<tr>
<td>Social Security: Not directly measured 11%</td>
</tr>
<tr>
<td>Social Security: Working Age Benefits 54%</td>
</tr>
</tbody>
</table>

Source: HMT PES Database

4.3 Growth in relevant Departmental Expenditure Limits

Figure 4.3 shows the current-price\textsuperscript{22} expenditure growth by COFOG over the period 1999/00 to 2007/08.

The data used to produce this graph is shown in Appendix G. The data throughout relates to DWP in its 2005/06 form, before the transfer of the Appeals Service to the Department of Constitutional Affairs. This historical series of data has been analysed in a way that means, as far as possible, figures can be compared consistently over time.\textsuperscript{23}

\textsuperscript{22} Current price indicates that, up to this point, expenditure data has not been adjusted for the impact of inflation.

\textsuperscript{23} For example, expenditure on HSE (which joined DWP in 2002) is included throughout the entire period and expenditure related to Child Benefit (which moved to HM Revenue and Customs in 2003) is excluded throughout. Appeals Service expenditure is included throughout this report.
Investment has contributed substantially to the growth in expenditure since 2001/02. This investment has been partly justified by an expectation that it will, over time, deliver improvements in DWP productivity. However, the case for additional funding has also been made on a number of other grounds – for example, to improve customer service and to contribute to broader Government objectives, including the delivery of additional new outputs. Some investments will only produce their full benefits in the longer term, beyond the period discussed in this report.

In this chapter, growth in recurrent expenditure is presented, in addition to growth in total expenditure, to improve understanding of the impact of one-off investment costs. This provides a different growth profile, particularly over the period between 2001/02 and 2005/06, which can be more closely related to the production of outputs. However, ongoing costs of investment (increases in running costs) are still included, and the additional activities delivered through the investment, some of which are not captured by the output measures, need to be recognised.

4.4 Department for Work and Pensions investment expenditure

Specific funding was received in two Spending Reviews (SR2000 and SR2002) to transform DWP through an extensive modernisation programme.

This modernisation funding was invested in the new Pension Service, Jobcentre Plus and Disability and Carers organisations, in Child Support Reforms, Payment Modernisation, Digital Office Infrastructure, and Finance Transformation. Further details are given in Chapter 8.
However, these funds make up only part of the total investment spend as additional funding has been found from within general funds.

### 4.5 Growth in Department for Work and Pensions recurrent expenditure

Removing non-recurrent expenditure, related to investment and other change, as well as the Efficiency Challenge Fund\(^\text{24}\), leaves the **recurrent** cost base of the department. Growth in DWP recurrent and non-recurrent expenditure is illustrated in Figure 4.4.

Although the profile of non-recurrent expenditure has changed over time, the large majority of the relevant DWP expenditure is recurrent.

**Figure 4.4  Recurrent and non-recurrent expenditure**

All figures presented up to this point have been in current prices, and are, therefore, unadjusted for the impact of inflation. In order to understand expenditure trends effectively it is necessary to apply suitable deflators so that expenditure can be expressed in real terms.

### 4.6 Deflators

From one year to the next prices, of staff, goods and services generally increase in line with inflation. This means that cash expenditure will increase to achieve the same output even if productivity levels have been maintained.

\(^{24}\) The Department has been set a target to achieve annual administrative efficiency gains of £960 million per annum by 2007/08.
To avoid such inflationary rises causing a decrease in DWP’s productivity measure, deflators must be applied to current costs to remove the effect of inflation.

The purpose of a deflator is to simply remove the effect of inflationary price rises. It should not inadvertently remove any real efficiency changes.

### 4.6.1 Pay deflators

The Civil Service volume index has been used for deflating pay within National Accounts.

DWP analysis done for the Atkinson Review showed that the DWP volume index and Civil Service volume index have historically been closely aligned with one another, and with the Average Earnings Index (AEI) sub-index for Public Administration, published by ONS.

However, the deflator used in this paper takes account of the increase in Civil Service superannuation payments in 2005/06 and an observed upward grade shift in the DWP.

The impact of the deflator is seen in Figure 4.5. It is possible that other deflator series could have been used in this analysis, and DWP will aim to develop this work area in the future, in consultation with ONS.

**Figure 4.5 The impact of deflators**

These staff cost profiles can also be compared with the headcount profiles for DWP. Figure 4.6 – which shows an indexed growth profile for headcount and deflated staff expenditure – demonstrates a close relationship between deflated staff expenditure and headcount numbers. This provides corroborative evidence in support of the proposed DWP pay deflator.
4.6.2 Deflators for procurement

The department is a heavily outsourced organisation with significant expenditure on estates, IT and third party providers of services to support labour market activity. There are also substantial costs involved in different methods of payments to our customers, both to Royal Mail and to commercial banks.

DWP has a Commercial Strategy which focuses very strongly on Value for Money and contribution to the Department’s Efficiency Targets.

Although there are a number of indices that could be used to deflate procurement expenditure, DWP contracts are, in the main, capped at RPIx (the Retail Price Index excluding mortgage interest payments). This has been compared with general Gross Domestic Product (GDP) and the Consumer Price Index (CPI).

RPIx and GDP are very close, but CPI gives a very different result and is, therefore, not considered appropriate (given the use of RPIx to cap DWP contracts).

As GDP is the only measure that is available for future years – and because RPIx and GDP are very close – GDP has been used to deflate procurement expenditure in this report.

The impact of applying the GDP deflator series to the non-staff costs can be seen in Figure 4.7. This shows that expenditure on non staff costs has increased over time until 2003/04 (reflecting the investment in procuring additional goods and services). There is then a general downward trend until 2007/08, with the exception of a small peak in 2006/07 as a result of increased investment in that year.
4.7 Summary and discussion

Figure 4.8 below summarises the results from the analysis to identify and deflate relevant recurrent DEL by COFOG:

- Row 1 shows total DWP DEL (as set out in DWP accounts for historic data);
- Row 2 sets out DWP relevant DEL\(^{25}\);
- Row 3 presents total relevant DEL in real terms (at 2004/05 prices). The same deflators have also been applied to the recurrent expenditure.

\(^{25}\) From this it can be seen that £1.8 billion (21 per cent of total DEL) was excluded from DWP relevant DEL in 2004/05. Capital expenditure has fluctuated over the period depending on buy/lease decisions, and other exclusions increased in 2003/04 due to increased expenditure on Housing Benefit administration (paid to local authorities) and increased take-up of European Social Fund.
### Figure 4.8  DWP DEL for productivity analysis

<table>
<thead>
<tr>
<th></th>
<th>01/02</th>
<th>02/03</th>
<th>03/04</th>
<th>04/05</th>
<th>05/06</th>
<th>06/07</th>
<th>07/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total DWP DEL</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td></td>
<td>6,640</td>
<td>7,625</td>
<td>8,473</td>
<td>8,678</td>
<td>8,855</td>
<td>8,747</td>
<td>8,230</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>173</td>
<td>282</td>
<td>211</td>
<td>297</td>
<td>396</td>
<td>241</td>
<td>46</td>
</tr>
<tr>
<td>Other exclusions</td>
<td>1,091</td>
<td>1,108</td>
<td>1,559</td>
<td>1,530</td>
<td>1,522</td>
<td>1,617</td>
<td>1,784</td>
</tr>
<tr>
<td>2. DWP relevant DEL</td>
<td>5,376</td>
<td>6,234</td>
<td>6,703</td>
<td>6,851</td>
<td>6,937</td>
<td>6,889</td>
<td>6,400</td>
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<tr>
<td>Social Security</td>
<td>3,445</td>
<td>4,076</td>
<td>4,384</td>
<td>4,370</td>
<td>4,385</td>
<td>4,394</td>
<td>4,079</td>
</tr>
<tr>
<td>Economic Affairs</td>
<td>1,930</td>
<td>2,158</td>
<td>2,319</td>
<td>2,482</td>
<td>2,552</td>
<td>2,494</td>
<td>2,321</td>
</tr>
<tr>
<td>3. Deflated expenditure</td>
<td>6,058</td>
<td>6,721</td>
<td>6,940</td>
<td>6,851</td>
<td>6,631</td>
<td>6,367</td>
<td>5,683</td>
</tr>
<tr>
<td>Social Security</td>
<td>3,882</td>
<td>4,398</td>
<td>4,543</td>
<td>4,370</td>
<td>4,185</td>
<td>4,056</td>
<td>3,617</td>
</tr>
<tr>
<td>Economic Affairs</td>
<td>2,177</td>
<td>2,323</td>
<td>2,398</td>
<td>2,482</td>
<td>2,447</td>
<td>2,311</td>
<td>2,066</td>
</tr>
</tbody>
</table>

Figures 4.9 and 4.10 show both the expenditure trend by COFOG over the period 1999/00 to 2007/08 and the impact of applying deflators.
Recurrent spend on social security increased between 1999/00 and 2003/04, before falling from 2004/05. Expenditure continued to reduce in 2005/06 and future projections show a continued fall in real expenditure through to 2007/08.

A major factor for the increase in expenditure was the establishment of three new Agencies in DWP (Jobcentre Plus, The Pension Service, and Disability and Carers Service\textsuperscript{26}) from 2002/03 with an increased focus on their respective client groups.

\textsuperscript{26} Disability and Carers Services was created as an agency in 2004/05.
This first year was very much a transition year with staff and work moving from the former Benefits Agency into the three new businesses and resulted in increased costs and headcount of around £250million/7,300 in the year, until migration of staff and work was completed.

The period from 2001/02 has been one of great change within the new Department and its agencies. The increase in recurrent spend reflects the fact that investment/modernisation has attracted additional on-going running costs and some increased costs during transition as well as one-off costs from that investment.

The introduction of Pension Credit as a new benefit in 2003/04 required additional staff, improved infrastructure and IT (delivering additional functionality) all of which increased recurrent costs. The establishment of The Pension Service and the introduction of Pension Credit have increased DWP’s recurrent cost base (from 2003/04) but have greatly improved the services to current and future pensioners.

DWP has also invested in IT infrastructure to enable future service delivery of e-government and efficiencies. This investment has had an impact on recurrent costs in terms of maintenance of IT desktop and software and additional non-cash costs (for depreciation).

Although DWP is still undergoing major change and has a substantial investment programme, past investment in IT and other infrastructure, and in business transformation is now showing positive impacts on the future recurrent cost base as Figure 4.10 demonstrates. Payment Modernisation and new IT and estates contracts will contribute to this cost reduction as will the planned reduction in headcount enabled by moves to centralised processing and call centres where possible.

The recurrent cost base includes the impact of investment and the ongoing additional costs have not been removed from estimates of growth in expenditure. This means that the comparison of growth in output and growth in recurrent expenditure needs to be considered in the context of the contribution DWP has made to delivering outcomes that are not captured by the current output measures.
5 Outputs

The Atkinson Review recommended that methods of output measurement:

‘...should represent quantitative indicators of attributable incremental contributions of services to outcomes experienced by individuals. They should serve as indicators of services that deliver final value to individuals or society collectively.’

Accordingly, the Department for Work and Pensions (DWP) productivity is measured by relating inputs to **final outputs**, rather than either **intermediate outputs** or **outcomes**.

The Atkinson Review further recommended that output measures should take into account not only quantity but also quality and value. At present, DWP output indicators used in National Accounts measure only quantity. Accordingly, outputs are described in terms of volume in this chapter. Quality and value are discussed in Chapter 6.

As outlined in Chapter 3, the outputs which the Department produces directly contribute to:

- helping people into work;
- assessing new claims for benefit;
- maintaining existing benefit claims – for example dealing with changes in customers’ circumstances and annual uprating of payments;
- assessing and arranging/paying child maintenance; and
- informing customers of their future pension entitlement.

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27 Recommendation 11.3 includes the following text: ‘we recommend that ONS should update the output measure for Administration of Social Security, with a wider range of benefits, accurate unit costs and weights, differentiation between new and existing claims, and quality adjustment in respect of timeliness and accuracy.’
Other activities carried out by DWP, such as recovering benefit overpayments, can be considered to contribute to these outputs and are not treated as final outputs in their own right.

5.1 Coverage of Department for Work and Pensions social security output indicators

DWP social security output measures can be grouped along client group lines, broadly aligned with the boundaries of DWP operational businesses:

- Jobcentre Plus: working age benefits processed and maintained;
- The Pension Service: pensioner benefits processed and maintained, future pension forecasts produced; and
- Disability and Carers Service: disability and carers benefits processed and maintained.

Output measures for the Child Support Agency are still being developed. An initial proposal was discussed with the Office for National Statistics, and is being revised in light of the comments received and in the context of the review of the agency, to redesign the delivery of Child Support.

The National Accounts DWP measures were chosen because they are more likely to be recognisable to an external audience as final (rather than intermediate) outputs from the Department. They are also the measures currently used for internal planning purposes. This means that robust management information on the volume and cost of delivering these outputs is available. Forecasts of future output volumes are also maintained.

All Jobcentre Plus, Pension Service and Disability and Carers Service related activity costs have been mapped onto these output measures, and taken together these provide a clear and straightforward means of measuring the Department’s overall output. There are a number of outputs that are not represented explicitly, because their influence on the overall output index is relatively small.

For example, The Pension Service Local Service activities provide information and support to pensioners. As such, the activity is captured as a load maintenance cost. Putting more effort into these activities – in response to Ministerial priorities – will increase costs without necessarily increasing output volume as currently measured. But the effects on the overall productivity index would be small.

28 Similarly, within the Economic Affairs Classification of the Function of Government (COFOG), it is not proposed to treat Jobcentre Plus activity to move people closer to work as an output in its own right. Instead it will be treated as an intermediate output (towards producing a job outcome).
The figures/charts presented in this chapter include only growth in DWP outputs for which output measures have been developed. In Chapter 7, growth in expenditure is compared with measured growth in output.

5.2 Cost weighting

Outputs are converted into a common currency by multiplying each output by the unit cost of producing it. It is then possible to add outputs together. From this an index is produced, with the base year (here 2004/05) at 100 and this index can be examined over time.

The unit costs used are total factor costs. Overheads and all corporate and support costs, such as encashment and IT contract costs, are included. If overheads are reduced, then so are the unit cost of outputs.

The unit costs used in this report have been revised since Blue Book 2005, and have been proposed by DWP for use in measuring output growth in Blue Book 2006. The unit costs are based on the financial year 2004-2005. The revisions arise from:

- improvements to relevant expenditure data (aligning the unit costs with the information presented in Chapter 4); and
- the use of actual output volumes for 2004/05.

In addition, the Minimum Income Guarantee load maintenance unit cost has been calculated using the methodology agreed with ONS and with more recent data.

All ‘relevant’ expenditure is included in the unit costs so that in the reference year the cost-weighted output sum should be equal to the relevant expenditure figure associated with these outputs.

The outputs associated with the working-age client group, delivered by Jobcentre Plus, contribute most heavily to the output index. The main benefits administered by Jobcentre Plus are Income Support, Jobseeker’s Allowance and Incapacity Benefit.

The Pension Service is the second largest contributor, through the administration of Retirement Pension and Pension Credit.

If expenditure on maintaining load and processing claims are combined, together these five benefits account for three-quarters of measured expenditure and, therefore, have the biggest impact on growth in the DWP social security output measure.

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29 Now referred to as State Pension.
Table 5.1  Top five DWP social security outputs

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Expenditure weight (2004/05) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Support</td>
<td>20</td>
</tr>
<tr>
<td>Jobseeker's Allowance</td>
<td>16</td>
</tr>
<tr>
<td>Retirement Pension</td>
<td>14</td>
</tr>
<tr>
<td>Incapacity Benefit</td>
<td>13</td>
</tr>
<tr>
<td>Pension Credit</td>
<td>13</td>
</tr>
</tbody>
</table>

Total of benefits listed above  76

5.3  Growth

Growth in the aggregate DWP social security output measure is presented in Figures 5.1 and 5.2.

Although working-age and pension outputs have the biggest impact on the aggregate measure (because they attract most of the cost weight), Disability and Carers Service outputs are growing rapidly – so although they combine to account for a smaller proportion of expenditure, growth in these outputs has an observable impact on the growth series.

Figure 5.1  Growth in the volume of output (DWP social security total)

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30 Expenditure weights are expressed as a percentage of DWP social security output measure
The aggregate DWP measure decreased by around ten per cent between 1997/98 and 2001/02. The main driver for this decrease was the reduction in Jobcentre Plus social security outputs (decreasing by over 20 per cent during this period). This resulted from sharply falling numbers of Jobseeker’s Allowance claimants (the load falling from 1.4 million in 1997/98 to 0.9 million in 2001/02) as economic conditions improved. The decrease in Jobseeker’s Allowance volumes over this period, to some extent, demonstrates the success of DWP labour market initiatives which promote work as the best form of welfare.

Reductions in the aggregate measure were offset to some extent over this period by increasing volumes on the Incapacity Benefit and Disability Living Allowance loads. Incapacity Benefit replaced Invalidity and Sickness Benefit in April 1995. In this benefit, the load has increased historically despite a continued drop in the volume of claims processed. This reflects the trend towards longer-term receipt.

In The Pension Service, the trend in the Retirement Pension load has been steadily upward, reflecting increased numbers above state retirement age, driven by trends in birth rates in the 1940s. However, the peak in output in 2003/04 is due to the introduction of Pension Credit. Pension Credit replaced Minimum Income Guarantee in October 2003, but a far higher proportion of the pensioner population was entitled to receive this benefit. New claims increased considerably in the year that Pension Credit was introduced and also as a result of steps taken by The Pension Service to meet take-up targets.

Without the transition from Minimum Income Guarantee to Pension Credit, output levels between 2001/02 and 2004/05 would have been fairly constant because small reductions in working-age outputs were offset by continued increases in The Pension Service outputs.
Output from Disability and Carers Service also increased steadily, as benefit loads for Attendance Allowance, Disability Living Allowance and Carer’s Allowance have all been increasing, combining to give an increase in the agency’s output of around two per cent per annum on average. This again reflects people staying longer on benefit (many recipients have long-term illnesses or disabilities which cannot be expected to improve).

Data points for 2005/06 and later are based on workload forecasts. Output volumes are expected to increase again through 2006/07 and 2007/08 with a continued drive towards promoting Pension Credit.

5.4 The relationship between claims and load

In 2004/05 in the social security measure, claims processing accounted for 44 per cent of expenditure and load maintenance for 56 per cent.

Figure 5.3 compares the growth in claims and load. This shows that at an aggregate level both new claim and load volumes reduced at similar rates to 2002/03 (though for individual benefits this has not necessarily been the case). The claims measures are, by nature, more volatile. This is well illustrated through the introduction of Pension Credit, where the flow of cases onto the load (peaking in 2003/04) has cumulatively increased the aggregate load measure.

Figure 5.3 Comparing growth in social security claims and load

![Graph comparing growth in social security claims and load](image)

31 Costs of the Appeals Service were allocated to load measures rather than claims. This is currently under review and further revisions to the unit costs may be required in the future.
5.5 Future output

Workload forecasts are maintained by DWP based on detailed work, for example, to examine flows on/off benefits, population statistics, and the likely impact of policy changes. Forecasts presented here are consistent with information published elsewhere, and used to plan and manage the Department’s benefit spend.

Jobcentre Plus benefit output is not expected to fall much further over the next couple of years. Although new claims to Incapacity Benefit and Income Support are expected to continue to fall, this decrease will be offset by the slight rise in Jobseeker’s Allowance, based on HM Treasury economic assumptions.

Growth in disability benefits is expected to continue at a rate of around two per cent per annum over the next few years.

The Pension Service output has dipped in 2005/06, mostly because the number of Pension Credit claims in this year is expected to be lower than in 2004/05. Retirement Pension claims generally increase year-on-year with a trend towards an ageing population, but a dip in the number of Retirement Pension claims was anticipated in 2005/06. The Pension Service output is expected to increase again in future years as the number of Retirement Pension claims increases again, particularly as the baby boomers reach state pension age, and there is a further push towards reaching Pension Credit targets.

Further into the future, current forecasts indicate that aggregate social security output will be maintained at around 2007/08 levels. Levels will be driven by DWP policies linked to the Department’s outcome strategy – for example, from Incapacity Benefit reform and Pathways to Work pilots\(^\text{32}\) – included within the DWP Five-Year Strategy\(^\text{33}\).

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\(^{32}\) Pathways to Work pilots offer early, sustained support to involve Jobcentre Plus, the NHS and the voluntary sector to support people with health conditions and disabilities.

6 Quality and value

In accordance with Atkinson Review recommendations, it would be desirable for the output measure presented here to include an adjustment so that productivity reflects the quality of outputs and not purely the volume of outputs whose quality may be good or bad. Applying a quality adjustment would mean that the link between expenditure, productivity and the quality of outputs is incorporated.

Finding a robust and consistent measure of ‘quality’ for use across the Department is difficult. Not least because what is deemed to be good ‘quality’ is often subjective, and will change over time as the Department’s business and constraints change. For example, before the merger between the Department for Social Security and part of the Department for Education and Employment, the expectation on a quality service on Jobseeker’s Allowance may not have included a measure of how quickly that person returned to work, whereas now it might.

Work has been carried out to identify what information is available that could be used now to incorporate, if only in a limited way, an adjustment for quality of outputs.

Two such measures are discussed in this chapter: accuracy and timeliness. A third aspect, fraud and error, is discussed in Chapter 8.

Work will continue to examine further quality measures already in existence, the interactions between them, and how they might be combined to give a better indicator of quality, alongside new work to consider what consistent and robust measures of the value of activities should be, and how they might be achieved.
6.1 Accuracy

DWP uses three main measures of accuracy in benefit processing routinely within the Department:

- Monetary Value of Fraud and Error, which are estimates of the absolute value of incorrect payments made on average during one year;

- Performance Measurement (PM) accuracy statistics, which are estimates of the number of cases which have been incorrectly paid on average during one year; and

- Decision Making and Appeals checks, which provide estimates of the extent to which decisions made within that year have been correctly made.

None of these measures will meet all expectations of what accuracy in administration means, but all are useful indicators of the quality of processing. All of the measures are based on a sample of cases being checked, and as such, caution is needed when interpreting changes in results over time.

Only PM accuracy statistics are available in a consistent way over time, and for a wide enough range of benefits, to be useful to directly adjust outputs.

PM accuracy statistics have been applied to the load outputs associated with the major benefits of the social security measure. The benefits covered are Income Support, Jobseeker’s Allowance, Incapacity Benefit, Pension Credit, Minimum Income Guarantee and Retirement Pension.

In 2004/05 these benefit load measures accounted for 50 per cent of the social security cost-weighted output measure. This means around half of the output measure has been adjusted for accuracy in this report.

The method of adjustment used is to scale the load volumes by the proportion of correct cases reflected in accuracy statistics. This means that the quality adjusted load volumes are for ‘accurate’ cases only, and gives zero weight to inaccurate cases.

New claim volumes have not been adjusted because a separate accuracy measure for mistakes made while processing new claims is not available. The load estimate of incorrectness was considered as a proxy to adjust claims, but analysis showed that this would vastly overestimate errors made in new claims for all benefits. That said, errors which occur while a claim is being processed and are not immediately corrected will be discounted from the load as incorrect, and are, therefore, not ignored entirely.

34 56 per cent of the social security output measure comprises load maintenance measures, and 92 per cent of load maintenance measures are covered by the five benefits for which PM accuracy statistics are available.
Disregarding the whole output for cases with a component of incorrectness may appear disproportionate, since, in most cases, the error would affect only a small part of the payment being made rather than the whole amount being paid incorrectly. However, the overall effect of applying the adjustment in this way is substantially muted by the fact that it has not been possible to adjust new claims outputs directly at all, and have also not adjusted the caseload for cases where customers have made an error or fraudulently claimed benefit, amongst other things.

When the accuracy statistics are applied to the load outputs in the social security measure, the aggregate impact of the quality adjustment can be calculated. This is shown in Figure 6.1.

**Figure 6.1 Social security output accuracy**

![Graph showing Social security output accuracy](image)

Benefit payment accuracy increased between 1997/98 and 2001/02. Levels were then maintained until 2004/05 when there was a decrease.

This decrease was due to falling accuracy levels in Pension Credit during 2004/05. Concentration of resources to support the high priority take-up campaign was a major factor causing the drop. The Pension Service introduced a Quality Recovery Plan for 2005/06 which has resulted in improvements to the level of accuracy.

The impact of the accuracy measures on the outputs and the corresponding weighted aggregate growth profile is shown in Figure 6.2.
Figure 6.2  Impact of accuracy adjustment

The major impact on the profile is to reduce the extent to which the output index decreases over time. Figure 6.2 also reflects the fact that accuracy was lower in 2004/05 – the reference year – than in the previous three years, but higher than between 1997/98 and 2000/01.

No time series of changes in the quality of new claims processing is available and so it is not possible to say what effect this would have had on output growth.

If it had been possible to include an adjustment for fraudulent claims and customer error, it is likely that it would have further reduced the extent to which the output index decreases over time (in Figure 6.2, the quality adjusted output in early years would have been lower), because there were substantial reductions in measured fraud in Income Support and Jobseeker’s Allowance in particular during the period 1997/98 to 2001/02. This is discussed in more detail in Chapter 8.

6.2  Timeliness

The timeliness of processing has been considered as an indicator of quality. Timeliness is measured in terms of clearance times and backlogs. However, it has been judged that this is not practical or desirable to adjust outputs directly using these measures for a number of reasons, outlined below.

DWP has a range of internal and external timeliness targets. These are valuable for dealing with particular operational problems, but not particularly useful as an overall measure of quality. Average processing times will mask vastly different customer experiences (some very short waiting times, some very long), while ‘x in y’ measures will not reflect the experience of those customers who wait an extraordinary length
of time. Also, the values of x and y, and what a good average processing time is will vary for each benefit, and vary over time. A value judgement would be needed to determine an acceptable cut-off for ‘on-time’ for the whole Department.

Targets within the Department have changed and evolved over time to meet the challenges being faced by businesses, both in types of targets used and the target value. This means that for most output indicators a consistent time series is not readily available.

If an adjustment for timeliness is included, it would have been necessary to avoid over-representing the effects of untimely processing (in the worst case, double-counting), because:

- the claim output indicators adopted in National Accounts are based on claims processed (rather than claims received). This means that untimely processing and backlogs in new claims processing are already included implicitly, to some extent, in the output measure (in that claims received but not processed will be excluded from the outputs);

- where there are delays in processing changes of circumstance, the associated load maintenance output may already have been discounted by applying the accuracy adjustment.

Where data is available, Chapter 8 presents charts of average clearance times, to put the productivity measure into the context of the overall performance of the Department.

6.3 Value

International conventions governing the production of National Accounts dictate that ‘direct’ measures of output should be based on cost-weighted activity indices. However, the Atkinson Review recommendations drew a distinction between measures used for the National Accounts and those used to appraise the performance of Government departments, where value-based measures may be more appropriate. Productivity articles are seen as more appropriate vehicles for presenting analysis of productivity in terms of value-based measures.

Value-based measures are inevitably more contentious than cost-weighted activity measures that are solely volume-based. But they are more appropriate in that they are better aligned with DWP overall objectives, and so reduce the risk of perverse or inappropriate incentives.

To date, the work on value-based measures has been focused on job-broking outputs because DWP uses these already for performance measurement, and they were, therefore, the obvious place to start.

Getting people into work is a key theme in the Government’s welfare reform strategy, and, whilst strictly speaking outside the scope of an article on social security
according to National Accounts definitions, there are inextricable links between this and the Department’s social protection objectives. Work on proposals for measuring job-broking outputs based on value is currently ongoing. The arguments for doing this are threefold:

- Better alignment with operational objectives.
- An economic justification, including benefit savings.
- A social policy justification.

The proposals are explained in detail in Appendix F.

In theory, value-based measures are also applicable to the Department’s social security outputs. Pension Credit is more effective than its predecessor (Minimum Income Guarantee) in reducing pensioner poverty, another of the Government’s key objectives, but it does so at a similar unit cost.

In general, an index based on value would tend to show bigger increases in productivity than one based on cost, based on the assumption that activities are increasingly targeted towards delivering business priorities.

### 6.4 Real earnings adjustment

One of the principles of the Atkinson Review (Principle C) stated that:

‘Account should be taken of the complementarity between public and private output, allowing for the increased real value of public services in an economy with rising real GDP.’

Elsewhere in the Atkinson Review final report, it is suggested that this could be done by uplifting the outputs with a 1.5 per cent year on year increase, reflecting the level by which real earnings have risen in the United Kingdom. For social security, however, the rationale for applying a real earnings adjustment is not immediately clear.

This principle of the Atkinson Review will be addressed by an Office for National Statistics (ONS) consultation, and at present remains a somewhat contentious issue. For this reason, the impacts of adjusting for real earnings do not form part of the main discussion on DWP social security outputs presented in this report, but the impact and rationale are discussed in Appendix H to illustrate how such an adjustment would impact on the DWP social security productivity story.
7 Productivity

In this chapter growth in expenditure (with and without non-recurrent spend) is compared with growth in output over time.

The total factor productivity measures are defined by dividing output in each year by the estimate of relevant (total or recurrent) expenditure in that year\(^{35}\). This is compared with a staff productivity measure (dividing output by staff costs) to present a different view of growth in productivity.

The following figures and tables compare growth in Department for Social Security (DSS) and Department for Work and Pensions (DWP) social security expenditure with growth in output over the period 1999/00 to 2007/08. In National Accounts only historical information is presented. However, a forward-look is included in this report because the productivity story for DWP very much depends on understanding the story about investment, where some returns – including in terms of productivity increases – are yet to be realised.

The difficulties of interpreting the total factor productivity measure are evident in Figure 7.1. This highlights the two main sources of complication:

- the creation of DWP in May 2001 and the organisational changes that occurred following this;

- the levels of investment agreed in the Spending Reviews 2000 and 2002 which dominate growth in the expenditure and productivity series, and make it difficult to attribute investment expenditure directly to the production of outputs.

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\(^{35}\) Aggregate output is calculated by applying 2004/05 unit costs to output volumes in a cost-weighted sum. This means in the productivity measure output at 2004/05 prices is being compared with real expenditure (i.e. after applying deflators) in each year.
Expenditure growth figures throughout this chapter include spend on delivering outputs that are not directly measured in National Accounts, but the output measures exclude this. This means, for example, that estimated growth in relevant recurrent spend for social security output is influenced by growth in recurrent spend by the Child Support Agency, but is compared with growth in output excluding the agency. This approximation, used because it was not possible to provide estimates of recurrent spend for some areas, is not likely to distort comparisons to any great extent.

The remainder of this chapter considers the productivity story chronologically, dealing separately with:

- the period prior to the formation of DWP;
- the period of investment (SR2000 and SR2002), where the total factor productivity will be discussed with and without non-recurrent expenditure; and
- a look ahead to the future.

A comparison with the staff productivity measure is then provided.
7.1 Mid 1990s to 2001/02

Following the 1997 election, the Government committed itself to the spending plans set out by the previous administration for the next two years. For DSS, this resulted in a continuation of a real terms reduction in total administrative expenditure.

Between 1997/98 and 1999/00, output volumes changed by -3.0 per cent per annum on average. Although it has not been possible to measure growth in the DSS relevant expenditure before 1999/00, it is likely to have fallen less sharply than output. The consequence of this would be that productivity fell over these two years.

Between 1999/00 and 2001/02, relevant expenditure increased, whilst output continued to fall, and, as shown in Figure 7.1, this resulted in a decreasing social security productivity measure for DSS over these two years (equivalent to -5.3 per cent per annum on average).

However, as discussed in Chapter 6, there were demonstrable improvements in the quality of output over the period. Figure 7.2 illustrates that between 1990/00 and 2001/02 the fall in total factor productivity index is reduced (to -4.2 per cent per annum on average) by quality adjustment.

As discussed earlier, the estimate of improvement in quality is also likely to be understated because the adjustment only takes account of improvements in accuracy and has only been applied to load and not new claims measures. Furthermore, the adjustment does not cover all benefits.

Expenditure on reducing the monetary value of fraud and customer error, and reducing backlogs can also account for some of the difference in output and expenditure growth rates. Again, it has not been possible to take this into account in the quality adjustment, although it is discussed in Chapter 8.
7.2 2001/02 onwards

In the Spending Reviews conducted in 2000 and 2002, DWP benefited from major investment in return for a commitment to reform.

As discussed in Chapter 4, this investment spend was justified through a series of business cases aimed at ‘softer’ improvements (such as improved customer service), contributing to the cross-Government agenda to influence outcomes in the economy (for example, reducing pensioner poverty and increasing financial inclusion) as well as reducing future administrative and contract costs, through, for example, the Payment Modernisation Programme. This non-recurrent spend has been separated from the expenditure line, in order to better understand the productivity story.

Figure 7.3 compares growth in deflated expenditure, after non-recurrent spend has been removed, with growth in output.

Over the entire period from 2001/02 to 2004/05, the picture that emerges is one of falling productivity during a period of massive organisational change.

Any reforms that increase the effectiveness of public services, such as introducing new technology (for example, automating processing) will put upward pressure on productivity, although there may be considerable lags and the improvements may not be fully captured by the measures. This means for DWP productivity, growth is expected to be slow in the short run, but gather pace as longer-term benefits of modernisation are realised.
Between 2001/02 and 2004/05 the fall in implied productivity when non-recurrent expenditure has been removed is slightly greater than it is for total expenditure. This is, in part, explained by the fact that the recurrent expenditure figures include spending which, although not strictly investment in accounting terms, can be considered as quasi-investment. These include, for example, the recurrent costs involved in the creation of new agencies and the ongoing impact of Pension Credit.

However, there is evidence in 2005/06 that this trend has been reversed. The scale of the DWP efficiency challenge is recognised through the implied productivity increase to 2007/08.

This total factor (recurrent expenditure) measure is now used to examine the years from 2001/02 in greater detail. Average annual growth rates are compared in Table 7.3.
### Table 7.3 Annual average growth rates

<table>
<thead>
<tr>
<th>Period</th>
<th>Expenditure %</th>
<th>Outputs %</th>
<th>Productivity %</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/02 - 03/04</td>
<td>6.9</td>
<td>3.9</td>
<td>-2.8</td>
</tr>
<tr>
<td>03/04 - 04/05</td>
<td>1.6</td>
<td>-2.4</td>
<td>-3.9</td>
</tr>
<tr>
<td>04/05 - 05/06</td>
<td>-3.7</td>
<td>-2.7</td>
<td>1.1</td>
</tr>
<tr>
<td>05/06 - 07/08</td>
<td>-7.1</td>
<td>2.2</td>
<td>10.0</td>
</tr>
<tr>
<td>01/02 - 07/08</td>
<td>-0.6</td>
<td>1.1</td>
<td>1.7</td>
</tr>
<tr>
<td>01/02 - 04/05</td>
<td>5.1</td>
<td>1.8</td>
<td>-3.2</td>
</tr>
<tr>
<td>04/05 - 07/08</td>
<td>-6.0</td>
<td>0.5</td>
<td>6.9</td>
</tr>
</tbody>
</table>

#### 7.3 2001/02 to 2003/04

When non-recurrent spend is removed, the productivity series is driven by an increase in recurrent expenditure between 2001/02 and 2003/04 equivalent to 6.9 per cent per year, which coincided with a year on year rise in outputs of 3.9 per cent per year. As a result, the implied productivity index changed by -2.8 per cent per year.

2001/02 and 2002/03 in particular were years of great change for the Department. The creation of DWP and the new agencies was required to deliver policy change, new activities and significantly higher levels of service.

Whereas it is to be expected that productivity will temporarily dip during periods of change, and that productivity improvements will typically take a long time to become evident, it is also important to recognise the limitations of the output measure currently being used in National Accounts.

Although some of the new DWP outputs are captured by increases in the output volume measures (e.g. Pension Credit, future pension forecasts), other new functions (e.g. The Pension Service Local Service, Disability and Carers Service enhanced support to people with disabilities and their carers) are not fully reflected. Thus, whilst output has increased less slowly than recurrent expenditure, the difference has been offset by increases in activity and levels of service.

During 2003/04 output increased considerably with the introduction of Pension Credit, and the drive to reach take-up targets for this new benefit. Pension Credit replaced Minimum Income Guarantee in providing Income Support for pensioners, but was also designed to reach a far higher proportion of the pensioner population. It was introduced with a publicity campaign, and underpinned by take-up targets, aimed at maximising take-up amongst entitled pensioners, in particular those harder-to-reach pensioners in the lower income brackets.
Largely due to the introduction of Pension Credit, social security output increased by over seven per cent between 2002/03 and 2003/04. Some of this was a one-off increase due to the especially high volume of new Pension Credit claim applications processed in that year. However, over subsequent years the impact of activity to maintain the (larger than Minimum Income Guarantee) Pension Credit load is apparent in the output series. Loads maintained by the Disability and Carers Service also increased between 2002/03 and 2004/05.

The aggregate social security measure reflects the increases in pension and disability and carer benefit outputs, but these increases have been offset by a net reduction in working age benefits, due partly to the successful Jobcentre Plus labour market regime which has helped to move people off benefit into work, but also a reflection of the overall strength of the economy.

7.4 2003/04 to 2005/06

Between 2003/04 and 2004/05, recurrent expenditure continued to rise, although at a much slower rate. When coupled with a fall in outputs, this resulted in a fall in productivity of -3.9 per cent in 2004/05.

From 2004/05 to 2005/06, however, expenditure began to fall (by -3.7 per cent). At the same time, the fall in outputs was less than during the previous 12 months, resulting in an overall increase in productivity of 1.1 per cent on the previous year.

It is important to note that this 2005/06 expenditure data represents actual information, as far as is possible, rather than forecast. This provides us with evidence that the trend of falling productivity has begun to be reversed as returns on investment begin to be delivered.

7.5 2005/06 and beyond

In SR2004, DWP received a ‘flat cash’ settlement, and was given no further resources for investment. This is equivalent to a real terms reduction in expenditure.

As shown in Table 7.3, recurrent spending on delivery of social security outputs is expected to decrease by -7.1 per cent per annum on average between 2005/06 and 2007/08.

To meet the efficiency challenge, DWP is required to reduce expenditure and headcount by 2007/08 whilst maintaining performance (in terms of the quality and volume of output) compared to a 2003/04 baseline. Following a dip in output volume in 2005/06, volumes are forecast to increase again to above 2004/05 levels by 2007/08. This means that the DWP efficiency challenge involves increasing

36 Expenditure forecasts for 2005/06 and financial plans for 2006/07 and 2007/08, based on January 2006 data, have been used.
output, whilst maintaining performance – and must be met by a real increase in productivity/efficiency. It is not simply a cost-cutting exercise.

An annual increase in recurrent total factor productivity of 10.0 per cent between 2005/06 and 2007/08 is implied. DWP plans to deliver this increase through the investment of recent years and through other changes which do not depend on investment, such as organisational restructuring and business process redesign.

7.6 Staff productivity measures

The costs most directly associated with the production of outputs are staff costs. As Figure 7.4 demonstrates, staff productivity (measured in terms of recurrent spend on staff) from 2002/03 has been maintained through a period of considerable change/disruption. The growth in staff numbers and staff costs are shown to be closely correlated once increases for pay rises, superannuation and grade shift are taken into account. A headcount productivity measure would, therefore, demonstrate a similar trend.

The staff productivity measure decreased between 2001/02 and 2002/03 as the result of increases in staff numbers associated with DWP organisational changes. It was then broadly stable until 2004/05, before displaying an upturn in 2005/06.

It is expected to continue increasing from 2005/06 onwards as headcount reductions are made to meet the efficiency challenge.

The implied staff productivity measure increases more rapidly than the implied total factor productivity measures over future years. This reflects the emphasis being put on investment in key enablers, such as IT infrastructure, centralised processing and contact centres, to deliver the planned headcount reductions.
7.7 Conclusion

Figure 7.5 compares the productivity measures presented in this chapter. Although each measure presents a slightly different trend, the story that emerges is consistently portrayed:

- productivity measures have fallen during a period of massive organisational change. This is, in part, because the productivity measures do not fully capture the additional activities/services being delivered as a result of the organisational change and period of investment; a temporary decrease in productivity is to be expected during a period of change, and returns from investment may take many years to be realised;

- productivity measures have begun to increase in 2005/06;

- by 2007/08 total factor productivity is expected to be more than ten percentage points higher than when the new Department was formed in 2001/02.
Figure 7.5  Comparison of productivity measures

Social security total productivity measures

- Staff productivity (recurrent expenditure)
- Total factor productivity (recurrent expenditure)
8 Triangulation

The productivity measures presented in Chapter 7 are expressed in terms of the inputs and outputs (and hence productivity), as recommended in the Atkinson Review. However the Atkinson Review also emphasised the need to set this in the context of a more broadly based assessment which takes into account variations in performance, and other complications such as machinery of Government changes. This recognises that it will never be straightforward to measure the productivity of a complex Government department with multiple objectives.

This chapter considers the factors which are not taken into account directly in the productivity analysis reported in Chapter 7.

First, variations in performance are examined. The productivity analysis focuses mostly on what the Department delivered, whereas here consideration is given to how well it was delivered, by examining how quickly and securely benefits are delivered.

Second, major organisational changes that have taken place since the Department for Work and Pensions (DWP) was formed in 2001 are presented.

Linked to these changes was a substantial modernisation programme designed to improve customer service, deliver administrative savings, reduce fraud and error losses and focus attention on Ministerial objectives, notably through employment programmes and measures to alleviate pensioner poverty. A summary description of the programmes themselves is provided, followed by a discussion of the benefit they are intended to deliver in terms of administrative savings and benefit expenditure.

Finally, the progress made against the Government’s outcome targets is reviewed to provide assurance that the effort to deliver output efficiency have not been made at the expense of the Department’s overall objectives.
8.1 Variations in service levels

The Department collects detailed management information in order to measure all the aspects of performance in delivering its many different services. Performance in delivering social security benefits is typically measured in terms of accuracy and clearance time.

Performance measured through customer satisfaction surveys and clearance times has been broadly sustained over the period covered by this report, and in some cases has improved.

Below are some examples taken from the DWP businesses and also for Housing Benefit (which is delivered by local authorities on behalf of the DWP) whose outputs will be included in the Office for National Statistics (ONS) productivity article.

8.1.1 Jobcentre Plus

The target against which customer service in Jobcentre Plus is judged has four components:

- speed – how quickly Jobcentre Plus staff answered the telephone, greeted a customer and dealt with customers on the telephone and face-to-face;
- accuracy – the accuracy of information given on the telephone and face-to-face;
- proactivity – how well staff understood customers’ requests, anticipated their needs and how successfully services were tailored to meet their individual needs; and
- environment – the quality, facilities, accessibility and physical condition of Jobcentre Plus premises.

There has been relatively little change in this aggregate measure in recent years, with a figure of 85.2 per cent reported for the full year of 2005/06.
8.1.2 Disability and Carers Service

There have been improvements recorded in the time taken to clear disability benefit claims, as illustrated in Figure 8.2 for Disability Living Allowance. Latest data shows that this trend has been maintained.

Figure 8.1 Jobcentre Plus composite measure of customer service

Figure 8.2 Clearance time performance for Disability Living Allowance claims
8.1.3 The Pension Service

Finally, for The Pension Service, it is worth noting that clearance times for Pension Credit have started to fall as the changes to business processes, made as part of the pension transformation programme, have begun to take effect. This is illustrated in Figure 8.3.

Figure 8.3 Pension Credit clearance times

![Pension Credit clearance times: average clearance times against target](image)

For The Pension Service, two of the main targets that deal with individual aspects of customer service relate to the percentage of telephone calls answered and the percentage of telephone calls receiving the engaged tone. Between 2004/05 and 2005/06 (year to date) there has been a noticeable improvement against both of these targets, as shown in Table 8.1.

Table 8.1 also presents the results of The Pension Service Mystery Shopping programme, which has been in place since June 2004. In all aspects of this programme, the final outturn data for 2005/06 shows an improvement on the 2004/05 figures.
Table 8.1 The Pension Service: examples of performance

<table>
<thead>
<tr>
<th>Customer service targets*</th>
<th>2004/05</th>
<th>2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of telephone calls answered**</td>
<td>90.4 %</td>
<td>95.2 %</td>
</tr>
<tr>
<td>Achieve less than one per cent of phone calls receiving the engaged tone</td>
<td>2.0</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Mystery shopping programme

| Accessibility: how easy it is to get through to Pension Centres | 95.8 | 99.6 |
| Responsiveness: how quickly pension centres answer calls | 82.1 | 90.8 |
| Quality of interaction: how customers are dealt with | 85.7 | 90.7 |
| Product quality: accuracy and completeness of information given | 54.1 | 65.1 |
| Overall score | 72.6 | 80.5 |

* includes April-September data.
** the target has been revised, from 90 per cent in 2004/05 to 92 per cent in 2005/06.

8.1.4 Housing Benefit

The final example is for Housing Benefit, which is delivered by local authorities on behalf of the DWP. However, DWP has policy responsibility for the benefit and there are quite close operational links between the DWP and local authorities. Moreover, Housing Benefit has been included here because it will be covered by the ONS.

Backlogs of Housing Benefit cases have reduced. Figure 8.4 demonstrates that there have been significant reductions in the time taken to process Housing Benefit claims. The trend has been decreasing over time, but with some short-term increases following difficulties arising with new legislation.
8.2 Protecting the benefit system against fraud and error

Chapter 6 on quality examined the way that accuracy varied over time. However, it did not consider in detail the consequences of error, notably the very large losses from fraud and error which lead to the qualification of the Department’s accounts by the National Audit Office.

Attempts are continually made to defraud the benefit system, and though steps are taken to reduce the number of these which are successful, some attempts will result in the payment of money to people who are not entitled to it. Further overpayments arise when customers make mistakes in the information they provide, forget to inform DWP about changes within sufficient time, or claims or changes to claims are not processed accurately or quickly enough. An estimated £2.6bn\(^{37}\) (2.3 per cent of benefit expenditure) was overpaid in 2004/05.

Challenging Public Service Agreement (PSA) targets to reduce fraud and error in the benefits at most risk were set as part of Spending Review 2002 and updated during Spending Review 2004:

- to reduce money lost through fraud and error in Income Support and Jobseeker’s Allowance by 50 per cent by March 2006 from a baseline of October 1997; and then by a further 15 per cent by March 2010;

\(^{37}\) This figure is gross; it does not include underpayments, and recoveries have not been offset.
• to reduce the money lost through fraud and error in working-age Housing Benefit by 25 per cent by March 2008 from a baseline of 2002/03.

DWP and local authority management targets have also been set to reduce overpayments in other benefits and to increase recoveries where money has been incorrectly paid. Work is underway to develop appropriate measures to improve targeting of reviews for Disability Living Allowance awards, where a considerable amount (£630 million in 2004/05) is paid to claimants whose health condition has improved gradually, but to the extent that they are no longer entitled to the same level of support38.

In order to meet its PSA targets and wider public accountability responsibilities, the Department has invested significant sums of money (in excess of £0.5 billion of extra money between 1997/98 and 2003/04) to reduce levels of fraud and error in benefits that it processes itself and those processed on its behalf by local authorities.

In 1997/98 and 1998/99 DWP improved accuracy rates on a range of benefits. During 1999/00 and 2000/01, the Department provided substantially more fraud officers, more resources to review claimants’ circumstances and made improvements to administrative processes. After this initial push to reduce the stock of existing claimants with fraud or error in their claims, the Department has invested in tighter gateway procedures, professional training for DWP and local authority investigators, deterrence activity (such as the national anti-benefit fraud campaign) and in its use of data and IT to share information, identify irregularities and to target high risk areas. Alongside these measures, a programme of measurement activity was implemented, to ensure that the current levels of fraud and error could be reported for those benefits most at risk.

Substantial progress has been made in reducing the proportion of loss in Income Support and Jobseeker’s Allowance to fraud and error since 1998/99, as shown in Figure 8.5. This shows that there have been significant reductions in the proportion of benefit overpaid, with a reduction of almost 50 per cent since the baseline period of October 1997 to September 1998.

38 This money has not legally been overpaid, and as such is not classed as ‘fraud’ or ‘error’ since the claimant’s award has not been reviewed and the claimant has not withheld information, but it is clearly the Department’s responsibility to reduce this sum which might not otherwise be paid.
The reduction in the proportion of Income Support and Jobseeker’s Allowance expenditure incorrectly paid is not wholly attributable to activities funded by the additional investment described above – in particular, a healthy economy and active labour market policies have reduced the risk of fraud happening in the first place. But the additional investment between 1999 and 2001 clearly played a major part in reducing fraud and error over that period and beyond.

Pension Credit (and previously Minimum Income Guarantee) is the only other benefit to have been continuously measured since 1997/98. Results show that low levels of fraud and error have been maintained. Continuous measurement of fraud and error in Housing Benefit began in 2001/02, with first robust results produced for 2002/03. One-off measures suggest that fraud and error rates are far lower in other benefits than they are in those for which continuous measures exist.

In addition to reducing levels of overpayments, substantial amounts of incorrectly paid benefits can be recovered, with around £0.5 billion recovered by DWP and local authorities in 2004/05.

8.3 Departmental re-structuring

The Atkinson Review recognised the problems associated with institutional change. Beginning in June 2001 when DWP was formed from the former Department of Social Security and parts of the former Department for Education and Employment, including the Employment Service (ES), there have been major changes in organisational structure affecting the production of social protection outputs. In particular, the creation of three new agencies was a major undertaking. More details on this are given in Appendix D.
As part of the 2004 Spending Review settlement, staff numbers are to be reduced by a net 30,000 and in keeping with the increased focus on customer service, redeployment of 10,000 posts to customer-facing roles by 2008 (compared to March 2004). This is to be achieved while still meeting overall headcount cuts. Most of the new customer-facing posts are in Jobcentre Plus, for example personal advisers working with jobseekers, especially those in harder-to-help groups such as lone parents and Incapacity Benefit recipients. Productivity increases, therefore, need to be delivered over a period of significant change for the Department and its staff.

In addition, the Department has been set a target to relocate 4,000 posts from London and the South East to other regions, by March 2008. The associated disruption on the business will add a further layer of complexity to the efficiency and productivity challenges.

8.4 Investment

From 2001, the Department took forward a substantial programme of change. Specific funding was received in two Spending Reviews (SR2000 and SR2002) to support the above aims through a modernisation programme. This investment programme has continued into SR2004.

Organisational changes were matched by major changes in the Department’s infrastructure, which necessitated substantial investment in technology and the estate, fundamental changes in business processes, staff reductions and the restructuring of internal ‘enabling’ services such as human resources, finance and IT.

In general, investments of this kind do not have an immediate effect on the Department’s ‘production’ outputs that are the subject of the analyses in the previous chapters of this report. Some of the dividends occur as future efficiency savings, whilst others manifest themselves in other ways altogether. For example, some investments are designed to deliver changes in benefit policy, others put in place improvements in Departmental infrastructure. Some, like programme protection measures, are intended to deliver reductions in the level of benefit expenditure. Others, such as employment programmes, have the effect of reducing benefit expenditure even though this is not their main objective. Others still, such as benefit take-up campaigns, increase benefit expenditure.

Many of these improvements fall outside the scope of the productivity analysis reported in Chapter 7. (Some are transfer payments, some fall into a different Classification of the Functions of Government (COFOG).) They are nonetheless important because of the very large sums of money involved, and because they influence, or are influenced by, the inputs and outputs that are the subject of this report.

39 Detailed information on DWP’s investment is available in the DWP SR2004 Departmental Investment Strategy 2005/06 to 2007/08, which is the source of the information provided here (http://www.dwp.gov.uk/publications/dwp/2005/invest_strategy.pdf).
The modernisation funding was invested in a number of projects, which included significant transformation programmes of DWP agencies, as outlined below:

- **pension transformation programme**: A transformed Pension Service, improving efficiency and customer service and delivering an operating model that aims to increase take-up of Pension Credit towards PSA target;

- **Jobcentre Plus implementation**: A Jobcentre Plus network of integrated, modernised offices across Great Britain to be completed by 2006;

- **Child Support reforms**: To implement reforms in the Child Support Agency, involving the transformation of existing business processes and structures, and the introduction of a new IT system;

- **Disability and Carers Service**: An over-arching change programme that brings together a range of projects, covering process, IT and telephony changes and e-enablement into a single coherent programme. The overall objective is a transformed Disability and Carers Service, which will deliver significantly better customer service from a substantially lower cost base;

- **debt management programme**: Introduction of a new organisational structure, new management information systems, combined with increased focus on the management and ultimately, reduction of debt stock;

- **payment modernisation programme**: To modernise the payment of social security benefits, providing a secure and fully accountable route for paying benefits and pensions;

- **human resources transformation**: Through a new Operating Model, enabling modernisation of the Human Resources service through shared service centres, blended learning, modernised policies, self-service, and a business partner network supported by centres of expertise;

- **IT transformation**: Implementation of the Digital Office Infrastructure to replace personal desktop computers for all staff was one of the largest programmes ever undertaken in Europe. The new computers and the Departmental intranet mean that the vast majority of staff now have access to word processing, email, intranet including online guides and forms, and internet services;

- **resource management system**: The introduction of a single, Department-wide resource management system to provide information to support the decision making process for administration expenditure, and enabling improved financial planning as well as accurate accounting of resource consumption\(^40\);

- **provide the technology to enable web-based services and encourage high levels of take-up in e-services**;

\(^{40}\) The creation of the Business Information Centre in January 2003 enabled similar gains to be obtained by providing effective Management Information across the Department.
• deliver modern integrated information systems to help reduce fraud and error by eliminating inconsistencies in customer data and reducing reliance on clerical process (achieved through improved and automated verification routines on customer payment details).

8.4.1 Savings from investment

The Department was set a target to achieve annual administrative efficiency gains of at least £960 million per annum by 2007/08. The £960 million is based on gross Department Expenditure Limit (DEL) savings at 2007/08 prices, to be achieved by the end of March 2008 and measured from a DEL baseline of 2003/04. To achieve the target will require an annual expenditure reduction, in real terms, of 2.8 per cent over the period. This sum has already been removed from the baseline funding provided for within the SR2004 financial settlement. Therefore, all DWP financial savings are accounted for as the settlement was agreed net of the planned efficiency savings. The Department’s efficiency target takes no account of efficiencies achieved in reducing Annually Managed Expenditure (AME) or of any possible adverse impacts on AME of cost reductions in administration expenditure.

Efficiency savings will be realised from three main sources:

• improved procurement;

• reforming transactional processes; and

• transforming corporate services.

The biggest savings in efficiency are expected to come from payment modernisation, which is expected to result in £200 million per year being saved, when fully implemented. This programme led to direct payment of social security benefits (currently 22.5 million accounts) becoming the normal method of payment for all new claims. Customer accounts formerly paid via paper-based methods are now paid directly into bank/building society accounts. The PSA target to pay 85 per cent of customers by direct payment was met earlier than the target end date of December 2005 and since then Direct Payment levels have remained at over 97 per cent.

DWP investment can also affect the level of AME, and significant reductions in this expenditure are expected to be realised from modernisation projects. The estimated annual reduction in AME from these projects is around £500 million per year post-steady state in 2009/10, with savings expected from a number of sources including increased effectiveness of debt recovery, from the consolidation of debt collection centres, and reduction in fraudulent usage of benefit order books, through the direct payment of benefits into bank accounts.
8.5  Impact on outcomes

The measures used for National Accounts purposes are based on outputs rather than outcomes, not least because outcomes are influenced by factors outside the Department’s direct control. Nonetheless, the Government’s main objectives which are articulated through departmental PSA targets tend to be outcome-based, and it is important that the outputs produced by a department are consistent with its objectives, and that the risk of perverse incentives is avoided.

DWP’s SR2004 targets are given at Appendix C. The Department’s record of achievement against its PSA targets is good, providing reassurance that productivity as defined in Chapter 7 is not achieved at the expense of its overall outcome objectives. By 2005:

- unemployment was at a 30-year low and 2.4 million more people were employed than in 1997, whilst the number of people on working-age benefits had fallen by around one million;
- the UK had the best combination of employment and unemployment figures of the G7 major industrialised countries;
- 700,000 fewer children were in relative poverty than in 1997;
- more than 50 per cent of lone parents were in employment for the first time;
- numbers on incapacity benefits had stabilised;
- more than 50 per cent of disabled people were in employment for the first time;
- pensioners in absolute poverty was down by two-thirds, or 1.8 million.

Within this discussion, it is important to highlight that the Department will also positively impact on outcomes that lie outside its own strategic objectives, such as health, education, crime reduction, financial inclusion and the economy in general. For instance, through passporting arrangements, benefit recipients are entitled to a range of additional benefits-in-kind, including free school meals, prescriptions and dental check-ups. In turn, some of the areas listed above will depend partly on outcomes from other areas such as skills, childcare initiatives and the general state of the economy.

8.5.1 Employment rates

There has been considerable progress both in increasing the overall rate of employment and in reducing the gap between the overall rate and the rates for targeted groups.
Reducions in the gap between the employment rates of these groups and the overall rates have come as a result of spending and targeting resource on the disadvantaged groups. The inclusion of lone parents in the highest priority group for Jobcentre Plus job entry targets and the guidance and job-seeking assistance provided by the New Deal for Lone Parents have significantly contributed to the increase in the employment rate for lone parents. This will also lead to reductions in the proportion of children in workless households, which is another of the PSA targets. For the over 50s and disabled people, high priorities and assistance from programmes, such as New Deal 50 plus and New Deal for Disabled People have led to the reduced employment gaps shown in Figure 8.6.
An increase in the employment level does not, of course, necessarily imply that the newly employed people have moved off benefits into jobs. For example, it may reflect people making the transition from education into employment.

However, Figure 8.7 compares the growth in the employment level with the profile of Jobseeker’s Allowance claimants in London. The figure clearly shows that numbers of Jobseeker’s Allowance claimants decreased as the number of people in employment increased. Similarly, there is evidence that the number of lone parents on Income Support decreased, at the same time as the lone parent employment rate increased.

**Figure 8.7  Employment levels and Jobseeker’s Allowance claimants**

The Department continues to implement its active labour market policies, aimed at reducing the number of people out of work. These include:

- tackling unemployment through the Jobseeker’s Allowance regime;
- tackling inactivity through a more work-focused welfare delivery system, such as the Pathways to Work pilot for people on incapacity benefit and the New Deal programmes;
- working with the private sector through New Deal options and Employment Zones; and
- increasing labour supply through making work pay – the minimum wage and working tax credits are examples.

The success of these policies, combined with the strongest labour market in a generation, means that progress is on course to meet the targets underpinning the
Department’s PSA objective, ‘To promote work as the best form of welfare for people of working age, while protecting the position of those in greatest need’.

8.5.2 Pensioner poverty

There have been significant falls in the proportion of pensioners in low income since 1996/97. The percentage of pensioners in low income has fallen from 28 per cent to 17 per cent in 2004/05 (with low income defined as in households under 60 per cent of median income measured after housing costs). A number of policies have contributed to this, including the introduction of Minimum Income Guarantee in 1999 and its successor, Pension Credit, in 2003. Pension Credit extended additional support to over a million new potential claimants, and The Pension Service work to ensure newly eligible claimants took up the benefit, was important. The proportion of pensioners in low income fell from 22 per cent to 17 per cent between 2002/03 and 2004/05 – the years when Pension Credit was introduced.

Figure 8.8 Pensioners in relative low income

8.5.3 Payment modernisation

Payment modernisation has already led to significant savings being made in terms of administration cost and fraud losses. It has also achieved non-financial objectives, including providing a safe, convenient, more modern and efficient way of paying benefits that fits within what people want and supports broader Government policy and the modernisation agenda. The change also leads to increased financial inclusion, as bank accounts are necessary for accessing many types of services such as payment from employers and access to mainstream credit facilities.
The PSA Target of paying at least 85 per cent of customers directly into their bank accounts has been successfully met. The progress made in this area can be seen in Figure 8.9.

**Figure 8.9 Direct payment progress to June 2005**

| Proportion of total benefit accounts paid by direct payment: | 2 % bands |
| October 04 and June 05 | 67% | 69% | 71% | 73% | 75% | 77% | 79% | 81% | 83% | 85% | 87% | 89% | 91% | 93% | 95% | 97% |

### 8.5.4 Conclusion

In the productivity analysis in Chapter 7 an attempt has been made to identify separately expenditure that is not associated with delivering the ‘production outputs’. To give an account of the benefits accruing from this investment, which in many cases fall outside the scope of the analysis, a range of evidence on performance has been presented in this chapter.

In broad terms, service levels have been maintained during this period of major change, and in some cases improved.

It takes time to make changes of the scale that DWP has been implementing since 2001. For example, the Jobcentre Plus roll out began before the new infrastructure had been implemented in full, and will not be complete until later in 2006. The impact of these changes, the desire to deliver the new business model as early as possible, and the associated disruption, may partially account for the productivity profile over the period.

The progress that the Department has made toward achieving its outcome objectives provides reassurance that these have not been jeopardised by efforts to deliver outputs efficiently.
Appendix A
Glossary

Annually Managed Expenditure (AME)

Departmental expenditure which is not easily predictable and controllable, and does not, therefore, lend itself to multi-year limits. Annually Managed Expenditure is typified by large demand-led programmes such as social security.

Atkinson Review

The Atkinson Review was a year-long review of the measurement of UK Government output and productivity. The final report was published on 31 January 2005. The review was undertaken by Sir Tony Atkinson, supported by a team seconded from the Office for National Statistics, HM Treasury, Department of Health and the Bank of England.

A key objective of the review was to recommend methods and approaches which could be used to measure UK Government output. In addition to recommending a general framework and principles, the intention was to focus on practical solutions for measuring the key functional areas of health, education, public order and safety and social protection.

Average Earnings Index (AEI)

Government-produced index of the measure of increase in average earnings in all industries, and includes basic pay and all related fluctuating payments, e.g. bonuses and commissions. Sub-indices exist for major industrial sectors, e.g. Public Administration.
Blue Book

Annual publication of National Accounts statistics. The Blue Book provides detailed estimates of national product, income and expenditure for the UK.

Classification of the Functions of Government (COFOG)

An international (United Nations) classification system for public spending, to enable standard and consistent reporting and analysis. Functional analyses differ from departmental spending analyses because they include local authorities as well as central Government, and devolved authorities as well as English departments.

There are ten standard UN functional groupings, which have been subdivided by HM Treasury into 18 COFOGs for UK use. Of most relevance to the DWP are the Economic Affairs and Social Protection COFOGs.

Combined Online Information System (COINS)

A newly developed web-based multi-dimensional database used by HM Treasury to collect financial information relating to Government Accounts and Resource Budgeting.

Deflators

Series of indexed data used to change figures from nominal terms (current prices) into real terms (constant prices or volume equivalents), expressing the expenditure on staff, goods and services, etc. in the prices of a common year.

Departmental Expenditure Limits (DEL)

The expenditure over which the Department exercises direct or indirect control. The DEL is broken down into Resource and Capital budgets, and the former of these is again split into Administration and Programme expenditure. Only part of the DWP DEL is relevant for the productivity article and paper, and this is referred to as the ‘DWP Relevant DEL’.

Department for Work and Pensions (DWP)

UK Government Department which aims to promote opportunity and independence for all through modern, customer-focused services. The DWP helps people to achieve their potential through employment, so that they are able to provide for their children and to work and save for secure retirement.

Details of the DWP and its agencies are given in Appendix E.
Gross Domestic Product (GDP)

The measure of the total domestic economic activity. It is the sum of all incomes earned by the production of goods and services on UK economic territory, wherever the earner of the income may reside. Growth in GDP reflects both growth in the economy and price changes (inflation).

HM Treasury

The United Kingdom’s economics and finance ministry. It is responsible for formulating and implementing the Government’s financial and economic policy. Its aim is to raise the rate of sustainable growth, and achieve rising prosperity and a better quality of life with economic and employment opportunities for all.

National Accounts

Accounts produced by the Office for National Statistics, in accordance with the European System of Accounts (1995). This allows for a standardisation in the way public sector income and expenditure is measured.

Office of Government Commerce

Office of Government Commerce (OGC) is an independent Office of the Treasury, with its own Chief Executive. It supports the public sector’s work to achieve efficiency, value for money and improved success in the delivery of programmes and projects.

Payment modernisation programme

Modernisation programme to establish direct payment as the normal method of payment. Converted customers from orderbook/ giro to direct payment. Contributed to the Government’s financial inclusion objectives.

Productivity

Commonly defined as a ratio of a volume measure of output to a volume measure of input.

Public Expenditure System Database (PES)

Treasury database, which holds detailed annual expenditure plans and outturn data. The PES covers three forward years, the current year and five prior years, i.e. nine years in total.
Public Service Agreement (PSA)

An agreement between a Government department and HM Treasury, as part of the Spending Review, including objectives and targets.

Resource Allocation Model (RAM)

DWP system which is updated on a monthly basis and includes all the funding DWP expect to have available in any given Spending Review period.

Spending Review

Sets out the key improvements in public services that can be expected over a three-year period; includes a thorough review of a department’s aims, to find the best way of delivering the Government’s objectives. Includes the amount of funding to be allocated to departments.

Superannuation

Contributions to an occupational pension scheme.

Total Managed Expenditure (TME)

The sum of DEL and AME.

UK Centre for Measurement of Government Activity (CeMGA)

Part of the UK Office of National Statistics with specific responsibility for coordinating and taking forward the agenda of work that came out of the Atkinson Review.
Appendix B
Classification of Department for Work and Pensions expenditure within National Accounts

Public spending is presented in National Accounts in terms of international functions of Government – called the Classification of the Functions of Government (COFOG). These describe functions such as health, education and social protection.

Functional analyses are preferred to departmental spending because transfers of responsibility between departments do not affect the series, making the analyses consistent and comparable over time. Moreover, as COFOGs are a UN, OECD, EU and World Bank standard, they facilitate international comparisons.

The international standard includes ten COFOGs, listed in the first column of Table B.1. Department for Work and Pensions (DWP) administrative activity associated with the processing/assessment and maintenance/payment of claims for benefits under a variety of programmes, is covered by the Social Protection COFOG. Activity associated with the wider welfare objective of promotion of work and economic opportunity, is captured within the Economic Affairs COFOG.
### Table B.1 DWP expenditure by COFOG (UN standard)

<table>
<thead>
<tr>
<th>COFOG (UN standard)</th>
<th>DWP expenditure included by DWP in National Accounts</th>
<th>DWP expenditure included by others in National Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>General public services</td>
<td>Better Government for Older People (BGOP)</td>
<td>Council Tax Benefit subsidy (England)</td>
</tr>
<tr>
<td>Defence</td>
<td></td>
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<tr>
<td>Public order and safety</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic affairs</td>
<td>Labour market activity HSE/HSL</td>
<td>Grant for regional development fund</td>
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<tr>
<td></td>
<td></td>
<td>Grant to Disability Rights Commission</td>
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<tr>
<td></td>
<td></td>
<td>Private sector subsidies and REMPLOY grants</td>
</tr>
<tr>
<td>Environmental protection</td>
<td></td>
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<tr>
<td>Housing and community</td>
<td></td>
<td></td>
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<tr>
<td>Health</td>
<td></td>
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<tr>
<td>Recreation, culture and religion</td>
<td></td>
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<tr>
<td>Education</td>
<td></td>
<td></td>
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<tr>
<td>Social protection</td>
<td>Benefit administration Child Support activity</td>
<td>Housing Benefit subsidy</td>
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<tr>
<td></td>
<td></td>
<td>Council Tax Benefit subsidy (Scotland and Wales)</td>
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<td></td>
<td></td>
<td>Motability administration</td>
</tr>
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<td></td>
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<td>Financial Assistance Scheme</td>
</tr>
</tbody>
</table>

In the UK, HM Treasury has subdivided these COFOGs. Of particular relevance to DWP, the Economic Affairs COFOG has been subdivided by HM Treasury into the five COFOGs shown in the table below.

### Table B.2 DWP expenditure on economic affairs by COFOG

<table>
<thead>
<tr>
<th>Division of UN economic affairs COFOG into HMT COFOGs</th>
<th>DWP expenditure included by DWP in National Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise and economic development</td>
<td>Labour market activity HSE</td>
</tr>
<tr>
<td>Employment policies</td>
<td></td>
</tr>
<tr>
<td>Agriculture fisheries and forestry</td>
<td></td>
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<tr>
<td>Transport</td>
<td></td>
</tr>
<tr>
<td>Science and technology</td>
<td>HSL</td>
</tr>
</tbody>
</table>
Appendix C
Department for Work and Pensions Public Service Agreement

Objective I

**Ensure the best start for all children and end child poverty by 2020**

Halve the number of children in relative low-income households between 1998/99 and 2010/11, on the way to eradicating child poverty by 2020, including:

- reducing the proportion of children living in workless households by five per cent between spring 2005 and spring 2008; and

- increasing the proportion of Parents with Care on Income Support and income-based Jobseeker’s Allowance who receive maintenance for their children to 65 per cent by March 2008.

Children in relative low-income households element joint with HM Treasury.

(The Government will also set a target as part of the next Spending Review to halve by 2010/11, the numbers of children suffering a combination of material deprivation and relative low income. The target will be met if there is an equivalent proportionate reduction to that required on relative low income between 2004/05 and 2010/11.)

Improve children’s communication, social and emotional development so that by 2008, 50 per cent of children reach a good level of development at the end of the Foundation Stage and reduce inequalities between the level of development achieved by children in the 20 per cent most disadvantaged areas and the rest of England.
Sure Start Unit target, joint with the Department for Education and Skills.

As a contribution to reducing the proportion of children living in households where no one is working, by 2008:

- increase the stock of Ofsted-registered childcare by ten per cent;
- increase the take up of formal childcare by lower income working families by 50 per cent; and
- introduce, by April 2005, a successful light-touch childcare approval scheme.

Sure Start Unit target, joint with the Department for Education and Skills.

**Objective II**

*Promote work as the best form of welfare for people of working age, while protecting the position of those in greatest need*

As part of the wider objective of full employment in every region, over the three years to Spring 2008, and taking account of the economic cycle:

- demonstrate progress on increasing the employment rate;
- increase the employment rates of disadvantaged groups (lone parents, ethnic minorities, people aged 50 and over, those with the lowest qualifications and those living in the local authority wards with the poorest initial labour market position); and
- significantly reduce the difference between the employment rates of the disadvantaged groups and the overall rate.

Overall employment rate element joint with HM Treasury.

By 2008, improve health and safety outcomes in Great Britain through progressive improvement in the control of risks in the workplace.

**Objective III**

*Combat poverty and promote security and independence in retirement for today’s and tomorrow’s pensioners*

By 2008, be paying Pension Credit to at least 3.2 million pensioner households, while maintaining a focus on the most disadvantaged by ensuring that at least 2.2 million of these households are in receipt of the Guarantee Credit.

Improve working age individuals’ awareness of their retirement provision such that, by 2007/08, 15.4 million individuals are regularly issued a pension forecast and 60,000 successful pension traces are undertaken a year.
Objective IV

**Improve rights and opportunities for disabled people in a fair and inclusive society**

In the three years to March 2008:

- further improve the rights of disabled people and remove barriers to their participation in society, working with other Government departments, including through increasing awareness of the rights of disabled people;

- increase the employment rate of disabled people, taking account of the economic cycle; and

- significantly reduce the difference between their employment rate and the overall rate, taking account of the economic cycle.

Objective V

**Ensure customers receive a high quality service, including high levels of accuracy**

Improve Housing Benefit administration by:

- reducing the average time taken to process a Housing Benefit claim to no more than 48 days nationally and across the bottom 15 per cent of local authorities to no more than 55 days, by March 2008;

- increasing the number of cases in the deregulated private rented sector in receipt of Local Housing Allowance to 740,000 by 2008; and

- increasing the number of cases in receipt of the Local Housing Allowance where the rent is paid directly to the claimant to 470,000 by 2008.

Reduce overpayments from fraud and error in Income Support and Jobseeker’s Allowance and in Housing Benefit.

**Who is responsible for delivery?**

The Secretary of State for Work and Pensions is responsible for the delivery of this Public Service Agreement. The Chancellor of the Exchequer is jointly responsible for delivering the children in relative low-income households element of PSA 1 and the overall employment rate element of PSA 4. The Secretary of State for Education and Skills is jointly responsible for delivering PSA 2 and PSA 3.
Appendix D
Machinery of Government changes (1997 to date)

Department for Social Security

28 July 1998, The Women’s Unit transferred from Department for Social Security (DSS) to the Cabinet Office (43 staff).

1 April 1999, Contributions Agency transferred from DSS to Inland Revenue (7,580 staff).

1 October 1999, Around 4,200 staff from the Family Credit Unit in Benefits Agency (DSS) transferred to the Tax Credit Office within the Inland Revenue.

Department for Work and Pensions

June 2001, the Department for Work and Pensions (DWP) was created, bringing together the former DSS and the Employment Service. The Ministry of Defence took responsibility for the War Pensions Agency from the former Department of Social Security.

24 July 2002, responsibility for HSC and HSE transferred from DTLR to DWP.

1 April 2003, Child Benefit Centre transferred from DWP to Inland Revenue (around 2,000 staff).

1 April 2004, responsibility for The Rent Service transferred from the Office of the Deputy Prime Minister to DWP.
1 November 2004, Disability and Carers Service established as an executive agency.

1 April 2006, The Appeals Service transfers to the Department of Constitutional Affairs.\textsuperscript{41}

\textsuperscript{41} This report reflects the DWP organisation in 2005/06, before the transfer of the Appeals Service to the Department of Constitutional Affairs.
Appendix E
Department for Work and Pensions organisation and activities

Delivery businesses and agencies

- Jobcentre Plus
- The Pension Service
- Child Support Agency
- Disability and Carers Service
- The Appeals Service
- Health and Safety Executive
- The Rent Service

Also local authorities administer Housing and Council Tax Benefits on behalf of the Department for Work and Pensions (DWP).

Corporate centre

The corporate centre of DWP is separate from the agencies and includes:

- client groups accountable for specifying the outcomes to be provided by the delivery businesses. These also have some important ‘outputs’, eg on disability rights, strategy for helping future pensioners;
- corporate and shared services for the whole department, eg human resources, finance (including debt management), programme and system delivery, professional groups such as lawyers, communications, analysts.
Associate bodies sponsored by DWP

Non-departmental public bodies
- Health and Safety Commission and Executive
- Pensions Compensation Board
- The Pensions Regulator
- Disability Rights Commission

Others – including advisory bodies
- National Employment Panel
- Benefit Fraud Inspectorate
- Independent Review Service for the Social Fund
- Social Security Advisory Committee
- Industrial Injuries Advisory Council
- Disability Living Allowance Advisory Board
- Disability Employment Advisory Committee
- Independent Living Fund
- Motability
- Pension Protection Fund

Main activities and outputs

Jobcentre Plus

Working with a range of partners, Jobcentre Plus promotes work as the best form of welfare, helping unemployed and economically inactive people of working age move closer to the labour market and compete effectively for work.

It encourages employers to open up more opportunities to jobless people, assist them to fill their vacancies quickly and help them to address the key skills needs of areas of the country and sectors of the economy.

It provides appropriate help and support for those without work, including by processing and paying a range of benefits to working age people who are not in work.
The Pension Service

The aim of The Pension Service is to combat poverty and promote security and independence in retirement for today’s and future pensioners. It processes and pays benefits for people over state pension age, principally Retirement Pension and Pension Credit.

Child Support Agency

The aim of the Child Support Agency is to deliver a professional, efficient and sensitive child support service that plays its part in ensuring that children whose parents do not live together are financially supported. It assesses claims for child maintenance and ensures that maintenance is paid on time.

Disability and Carers Service

The Disability and Carers Service is committed to providing financial support to disabled people and their carers by processing and paying ‘extra cost’ benefits.

The Appeals Service

The Appeals Service delivers the administrative provision of appeals services for social security and some related areas. It aims to provide all users of its service with a modern, professional and prompt service which gives customers an impartial re-examination of decisions under appeal provides an independent tribunal function.\textsuperscript{42}

Health and Safety Executive

The Health and Safety Commission and Executive’s vision is to gain recognition for health and safety as a cornerstone of civilised society and, with that, achieve a record of workplace health and safety that leads the world.

The Rent Service

The Rent Service provides rental valuation services for Housing Benefit purposes, and for landlords and tenants. It aims to be England’s leading provider of impartial, professional rental valuation services that are fair to customers and other stakeholders.

\textsuperscript{42} The Appeals Service transfers to the Department for Constitutional Affairs on 1 April 2006. However, the analysis contained within this report reflects the DWP organisation in 2005/06, before the transfer of the Appeals Service.
Appendix F
Proposed labour market output measure

This appendix describes the existing measures of Jobcentre Plus labour market performance and the rationale for replacing the Job Entry Target (JET) with the Job Outcome Target (JOT) in April 2006.

The note describes the explicitly weighted points system used to provide a ‘value adjustment’ to the outcomes achieved, common to both the JET and JOT targets. It argues that the points system represents a reliable and accurate reflection of the social and economic benefits of various outcomes and concludes that JOT points should be presented as Department for Work and Pension’s (DWP’s) labour market outcomes measure.

It is acknowledged that the JOT measure is potentially susceptible to external influence and that there may be difficulties attached to changing the measure and adjusting the points system as priorities change overtime. However, these difficulties can be mitigated by our ability to re-base historical JOT information using current definitions to produce an historical time series of outcomes achieved.

Background

Jobcentre Plus is an executive agency of the DWP. Launched in April 2002, Jobcentre Plus brought together the Employment Service and parts of the Benefits Agency that delivered services to working-age people. Its aim is to help more people into work and more employers fill their vacancies, and to provide people of working age with the help and support to which they are entitled.

Jobcentre Plus plays a vital role in delivering the Government’s Welfare to Work strategies and DWP’s Public Service Agreement (PSA) targets. The PSA targets agreed as part of the 2004 Spending Review commit DWP to, among other things, demonstrate progress in increasing the employment rate, increase the employment
rates of disadvantaged groups and significantly reduce the difference between the employment rates of the disadvantaged groups and the overall rate. Disadvantaged group are defined in the PSAs as:

- disabled people;
- lone parents;
- ethnic minorities;
- people aged 50 and over;
- those with the lowest qualifications; and
- those living in the local authority wards with the poorest initial labour market position).

Moving from JET to JOT

Jobcentre Plus is set published annual targets designed to maximise its contribution to the delivery of DWP’s PSA targets. A key element of the targets structure is the JET which was introduced in 2002/03 as part of the first year’s set of performance targets for the newly launched Jobcentre Plus. Use of the job entry as the basic measure of outcomes was carried forward from the Employment Service but the JET target added the explicitly weighted points system designed to provide a clearer signal of the value placed on outcomes achieved.

To score a recordable outcome under JET, Jobcentre Plus had to demonstrate a clear link between its intervention and the outcome, normally a formal submission to a Jobcentre Plus notified vacancy. The modernisation of Jobcentre Plus meant that the JET target became increasingly out of step with the changing nature of the business. The limitations of JET included:

- job entries achieved through the expanding number of modernised channels (of which Jobcentre Plus has stewardship), and which involve people applying for jobs direct, were increasingly not picked up by JET. This resulted in the need to apply discounts to the national target level to reflect the loss of recorded performance;
- JET did not encourage the most cost effective use of new self-service channels for those customers who could help themselves as performance could be captured where there was no clear audit trail and submission. JET encouraged advisers to intervene where there was a reasonable expectation of an outcome, rather than focus their efforts on priority clients who needed the most help; and
- JET involved following up with employers the success of submitting people to vacancies and encouraged staff to spend time on non-value added activities around measuring and validation to capture job entry performance.

From January 2005, Jobcentre Plus piloted a new measure of Jobcentre Plus’s job broking outputs, known as the Job Outcome Target (JOT), in seven of its Districts.
JOT aims to capture all movements into work following interaction with Jobcentre Plus, regardless of the level or intensity of the intervention involved. Capturing all outcomes in this way encouraged advisers to advocate self-help and use of direct application channels for those clients for whom this is appropriate, thus removing the perverse incentive for artificial intervention. This enabled advisers to increase the focus on those clients with the most barriers to work, many of whom will be from priority groups.

In October 2005, Ministers agreed to roll out JOT ‘option 1’, which uses DWP’s Work and Pensions Longitudinal Study (WPLS) to match Jobcentre Plus customers against P45/P46 employment information obtained from HM Revenue and Customs, nationally in April 2006. This decision was communicated to the Chief Secretary and received a positive response.

The JET/JOT points system

A common feature of both the JET target and the new JOT measure, is the hierarchical system of explicitly weighted points scores for outcomes achieved. This system of explicit weights was introduced as part of the JET target for the first full year of the newly created agency in 2002/03. The introduction of the points system reflected a need to signal the value that is placed on outcomes achieved, focusing on delivery of Department’s PSA priorities. In particular, the system of explicitly weighted points scores is designed to:

- provide a clear signal of Ministerial and Government priorities;
- provide clear and transparent incentives for staff to maximise Jobcentre Plus’ contribution to our employment PSAs, particularly around improving outcomes for disadvantaged groups; and
- broadly reflect the economic and social value of achieving outcomes from particular groups.

Under the explicit weights system, Jobcentre Plus is awarded points for outcomes achieved ranging from 12 points for helping a high priority customer, such as a lone parent or recipient of Incapacity Benefit, move into work to a single point or helping an employed person change jobs. Additional points are awarded in specified local authority wards identified as having a poor labour market position or high levels of worklessness coupled with a high population of ethnic minority people. Under JET, an additional point is also currently awarded where recipients of Jobseeker’s Allowance remain off benefit four weeks after being placed into work by Jobcentre Plus, recognising the value that is placed on retention in work. An improved measure of retention is being developed for introduction alongside the new JOT and could feasibly, over the longer term, be incorporated into the labour market output measure.

Jobcentre Plus is set an overall points score to achieve nationally over the course of each year. Planning assumption levels are established for each of the individual client
groups within the overall structure but essentially, Jobcentre Plus is free to deliver any combination of outcomes to achieve the overall points target. However, the planning assumptions are such that it is expected that Jobcentre Plus will need to achieve these individual levels, particularly those set for the highest priority client groups, to achieve the target overall. The points system has been carried forward as an integral feature of the new JOT target, which is arguably a measurement, rather than a structural, change to targeting performance in these areas.

Using points as value adjusted outcomes

It has been suggested previously that JET/JOT points be used as the measure of output from the DWP job broking activity. Points reflect the value attached by Government to the outcomes that are achieved. The main purpose of the published Jobcentre Plus targets is to incentivise Jobcentre Plus staff – at all levels – to maximise the agency’s contribution to the economic and social objectives of the Government (in part, as reflected in DWP PSAs). In other words, we want to maximise output – and we do that by constructing a target that is the best available composite proxy for the ‘output’ we want from Jobcentre Plus.

The point scores for individual client groups, therefore, aim to mirror DWP’s priorities as expressed through its PSA targets. In doing so, they are a broad reflection of the social and economic benefits of helping disadvantaged groups move off welfare dependency. This cannot be a precise mathematical relationship, for a number of reasons (set out below), but there is considerable evidence that the point scores do reflect these benefits.

An analysis of the estimated relative net fiscal (Annually Managed Expenditure (AME)) benefit to the exchequer of moving a customer off welfare and into employment for the top three priority groups suggests that the priority groups are correctly organised and that the relative weights are appropriate.43 Broadly speaking, Jobcentre Plus activity for Income Support and Incapacity Benefit clients can be

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43 The analysis takes into account the savings in primary and associated benefits (for example Income Support, Housing and Council Tax benefit), additional Tax and National Insurance revenues and increased spending by other Government departments (most notably additional HM Revenue and Customs spending on Tax Credits). This analysis does not include the net economic benefit (in terms of additional output) to individuals and does not attempt to quantify the wider social costs and benefits of Jobcentre Plus activity (for example the impact of lone parent job outcomes on child poverty). To establish the relative net benefit requires us to make assumptions about the average level of additionality generated by Jobcentre Plus activity and the duration of that additionality. To do this we draw heavily on the evaluation evidence from Jobcentre Plus delivered programmes and interventions as a proxy for the average level of additionality for each client group. This is not straightforward and relies on making value judgments about the applicability of different pieces of evaluation evidence.
extremely effective for a relatively small group of people with relatively high potential AME savings. The early evidence is that the benefits of successful programmes for inactive clients can be sustained over a relatively long period. For Jobseeker’s Allowance customers (particularly short term), the intervention regime helps much larger numbers of people to find work quickly, but at a much lower average added value per job entry.

Whilst the analysis suggests that we should attach an even greater relative weight to PG1 than we currently do, there are a number of reasons why this would not necessarily be sensible:

- this analysis relies on exchequer costs/benefits only and excludes both the economic and social/political costs/benefits. Including these would not be analytically very meaningful due to the wide ranging assumptions that would need to be used;
- there is considerable heterogeneity within all the client groups, but particularly the inactive client groups. This means that attaching too great a weighting – based on the average value of the client group – could provide excess incentives for Jobcentre Plus staff to engage in cream-skimming (ie helping the easiest-to-help within each client group);
- the existing relative weightings offer a clear and transparent guide to colleagues at local level. The balanced system reflects the duty of care that Jobcentre Plus extends to all its customers. A system of weights that heavily skewed points towards the higher priority clients could undermine that universal duty of care.

It should be acknowledged that the differentials between the points or each client group do not necessarily represent an accurate reflection of either the cost or difficulty attached to placing customers from each group into work. However, intuitively it would seem sensible to assume that there is a need to invest greater resources in securing outcomes for our priority clients that attract the highest points weighting as these individuals by definition have been identified as having significant barriers to work (e.g. because they are a lone parent, have incapacity issues, etc). This analysis, and previous work looking at the relative employment rates of different disadvantaged groups, confirms that that the basic positioning of different client groups within the hierarchy is appropriate.

Risks

There are some risks attached to changing the volume measure (from JET to JOT), although we believe that these can be adequately managed. The key risks are:

- the potential discontinuity in the historical time series;
- difficulties that may arise due to periodic adjustments to outcome definitions and/or the points structure and weights; and
- the fact that JOT provides less direct and tangible evidence of Jobcentre Plus ‘value added’ and may, as a result, be more susceptible to external influence.
Historic JOT data is available going back several years and it should be possible to obtain these using whatever outcome definition is appropriate. Similarly, we believe it will also be possible to re-base historical information to mitigate periodic changes and adjustments to the points structure in response to changes in Ministerial and other priorities. Although it is true that JOT may be influenced by external factors, notably economic fluctuations, the same can be said of many outcome measures of this nature, notably the GCSE attainment measure presented in the recent ONS Education Productivity Article. We believe that the new JOT outcome measure provides a comprehensive, reliable and efficient measure of the outcomes achieved by Jobcentre Plus, representing a significant improvement on the current JET measure.

Conclusion

The existing system of explicitly weighted points scores represents an accurate reflection of the value that is placed on the job outcomes achieved by Jobcentre Plus. Moving to the new JOT measure in April 2006 provides us with a more reliable and efficient measure of labour market outcomes and any discontinuity caused by the change can be mitigated by analysing and re-basing earlier outcomes data. The use of JOT points, therefore, represents an appropriate value adjusted measure of DWP’s labour market activity.
Appendix G
Detailed expenditure data

Table G.1 shows how the breakdown by pay, procurement and depreciation, has changed over time. The figure includes all relevant Departmental Expenditure Limit (DEL); it includes outputs that are directly measured as well as those recorded on an output=input basis.

Table G.1  DWP relevant DEL by economic category

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Data has not been adjusted for price increases.
Source: HMT PES Database, DWP RAM.

The next level of detail which can be drawn from the data is the breakdown of relevant expenditure by economic category and COFOG. This is shown in Table G.2, and includes all relevant expenditure.

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44 All historic figures are from the HM Treasury Public Expenditure System database (PES), populated in accordance with HM Treasury Guidance. Current figures (i.e. 2005/06) are based on the forecast outturn per the DWP ET Report at P10 and future figures are from the DWP P10 RAM. They are thus ‘cash’ and not adjusted to ‘real’ expenditure.
### Table G.2  DWP relevant DEL by COFOG and economic category

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Data has not been adjusted for price increases.
Source: HMT PES Database, DWP RAM.

It is also possible to present the data at a lower level, where expenditure is grouped along client group lines, as shown in Table G.3. When interpreting the data in this table, it is important to note that expenditure at this detailed level is only directly comparable from 2002/03 onwards, which was the first financial year of the current DWP organisation. Prior to this date, the Benefits Agency delivered State Pension and Disability and Carers benefits as well as Working Age benefits, and it has not been possible to separate out all of the costs.
Table G.3  Allocation of DWP relevant DEL grouped along client group lines

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Inputs associated with output indicators

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Employment policies – JCP

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**Social security**
Disability and carers benefits

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State pensions benefits

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Benefits Agency*

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Working Age Benefits

|                | 2,244 | 2,228 | 2,239 | 2,347 | 2,400 | 2,400 | 2,278 | 2,151 |       |
Total social security


Total inputs associated with output indicators

|                | 3,985 | 4,436 | 4,791 | 5,553 | 6,009 | 6,147 | 6,190 | 5,988 | 5,539 |

Proportion of relevant DEL

|                | 90%   | 89%   | 89%   | 89%   | 90%   | 90%   | 89%   | 87%   | 87%   |

Inputs not associated with output indicators (output=input)

**Economic affairs**
Employment policies – HSE/L

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**Social security**
Rent service

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Appeals costs for HB/CTB

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Child Support

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<td>306</td>
<td>343</td>
<td>438</td>
<td>455</td>
<td>449</td>
<td>476</td>
<td>618</td>
<td>618</td>
</tr>
</tbody>
</table>
Total social security

|                | 282   | 346   | 385   | 483   | 498   | 491   | 514   | 662   | 641   |
Total output=input

|                | 457   | 529   | 585   | 682   | 694   | 704   | 747   | 900   | 861   |

Proportion of relevant DEL

|                | 10%   | 11%   | 11%   | 11%   | 10%   | 10%   | 11%   | 13%   | 13%   |

*not possible to split Benefits Agency for these years.
Data has not been adjusted for price increases.
Source: HMT PES Database, DWP RAM.
Appendix H
The impact of adjusting for real earnings

Principle C of the Atkinson Review final report states:

‘Account should be taken of the complementarity between public and private output, allowing for the increased real value of public services in an economy with rising real GDP.’

Elsewhere in the report, it is suggested that this could be done by uplifting the outputs with a 1.5 per cent year on year increase, reflecting the level by which real earnings have risen in the United Kingdom.

Atkinson outlined this recommendation through a number of illustrations. For example:

‘In the case of health, rising real wage rates means that we attach a higher valuation to days lost through sickness absence. An extra week at work today is worth more than forty years ago. The same effect may apply more generally.’

For social security, the rationale for making a real earnings adjustment is perhaps less clear. However, as children who grow up in low-income households are more likely than others to have poor health, to do badly at school, to be unemployed as adults or to earn lower wages45, it could be argued that it is valid to apply a real earnings adjustment to social security outputs that reduce child poverty. Similar arguments could be applied to other disadvantaged groups that benefit from Department for Work and Pensions (DWP) social security outputs.

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The Atkinson Review felt that to ignore the effect of a real earnings adjustment would miss an important contribution to public output. At the same time, Atkinson urged caution in implementing this recommendation, to ensure that the principle received wide support before it is used. For this reason, this Atkinson Review recommendation will be the subject of a consultation by the Office for National Statistics (ONS).

Although the impact of such an adjustment has not been included within the main body of this report, it is presented in this appendix to provide the reader with an insight of the potential impact such an adjustment would have on the DWP social security output and productivity trends. In other words, this is not an adjustment that has been developed and advocated by the DWP, but is a recommendation of the Atkinson Review, and the purpose of this appendix is to present the impact such an adjustment would have on the DWP productivity series.

Figure H.1 presents a comparison of the output series, with and without the impact of real earnings adjustment. This adjustment uplifts the output value by a 1.5 per cent year on year increase, using the index shown in Table H.1.

<table>
<thead>
<tr>
<th>Table H.1</th>
<th>Real earnings adjustment index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.5 per cent adjustment series</td>
<td>92.8 94.2 95.6 97.1 98.5 100.0 101.5 103.0 104.6</td>
</tr>
</tbody>
</table>

**Figure H.1** Comparison of output series

The impact of adjusting outputs for increases in real earnings

Without adjustment

With adjustment
As seen in Figure H.1, this adjustment of outputs for increasing real earnings changes the trend quite significantly. Without the adjustment, the volume of outputs at the end of the period (2007/08) is broadly similar to the level at the start of the period. Once the adjustment is made, however, the output volumes increase by around 16 per cent (equivalent to 1.9 per cent per annum, on average).

Figure H.2 shows the impact this adjustment has on the implied DWP social security productivity.

**Figure H.2  Comparison of implied productivity series**

With the adjustment for real earnings, productivity is seen to fall less steeply in the early years. The average fall in productivity between 1999/00 and 2001/02 without the adjustment is -5.3 per cent per year on average, compared to -3.9 per cent with the adjustment.

From 2002/03 onwards – which coincides with the first complete financial year for the DWP in its current form – the productivity measures increase with/without the adjustment for real earnings. The average increase without the adjustment for real earnings is 5.3 per cent per annum. This increases to 6.9 per cent per annum with the adjustment.

As would be expected, uplifting outputs in line with real earnings has a positive impact on DWP social security implied productivity. However, although this adjustment is based on a recommendation of the Atkinson Review final report, the issue of adjusting public sector outputs for rising real earnings is still quite a contentious area, and will be the subject of a consultation launched by ONS later in 2006.