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An analysis of the productivity  
of the Department for Work  
and Pensions 2002/03 to 2007/08

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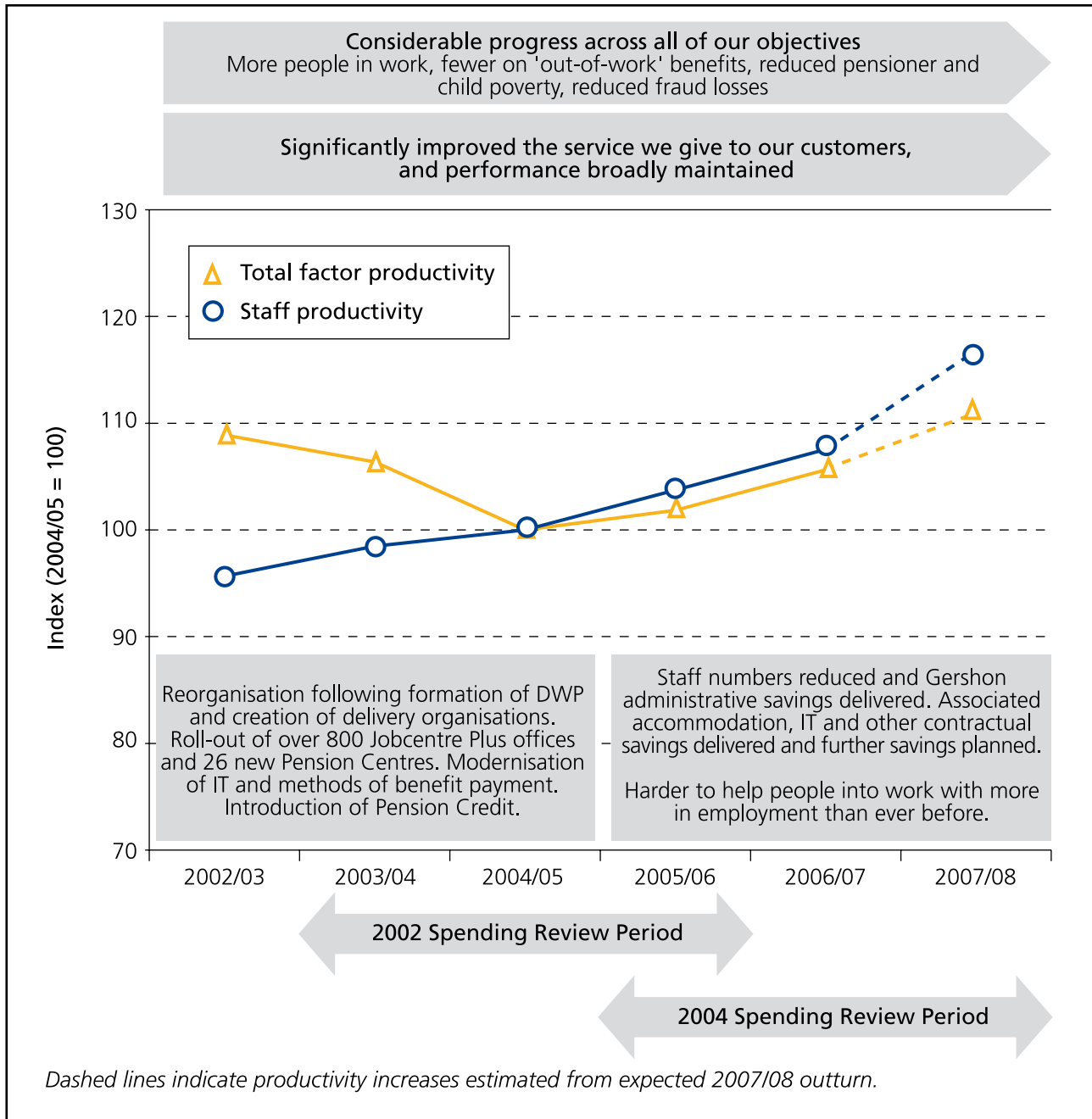
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# An analysis of the productivity of the Department for Work and Pensions 2002/03 to 2007/08

## Summary

- The Department for Work and Pensions has been at the heart of the Government's success in tackling worklessness and poverty. Since the Department was created in 2001:
  - more people are now employed in Britain than ever before and 150,000 fewer people are on out-of-work benefits;
  - more than 50 per cent of lone parents are in employment for the first time;
  - the number of people on incapacity benefits has stabilised and begun to fall for the first time in a generation;
  - there are 200,000 fewer children in relative poverty;
  - the number of pensioners living in relative poverty has fallen by around 700,000; and
  - legislation has been introduced to give full civil rights to disabled people.
- Following a period of investment and modernisation, the Department has been at the forefront of the Government's drive to increase efficiency. Between March 2004 and March 2008, a total of £960 million of administrative savings and a net reduction of 30,000 staff were required by the Efficiency Programme. The Department is on course to achieve these headcount reductions, and has already surpassed the administrative savings target.
- Between 2004/05 and 2006/07, productivity in the Department for Work and Pensions increased by around 6 per cent. Our provisional estimate is that by the end of the period (end of March 2008) it will have increased by around 11 per cent. These figures are based on the Department's headline productivity index which relates total outputs to total recurrent costs (described as a 'total factor' measure because it includes both staff and non-staff costs).

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- Staff productivity, a measure which relates total outputs to headcount, has shown a higher increase because of the considerable reduction in staff numbers. Between 2004/05 and 2006/07, staff productivity increased by 8 per cent and our provisional estimate is that, once Efficiency Programme headcount reductions are fully delivered by the end of 2007/08, staff productivity will have increased by around 17 per cent.

- It is also possible to measure the Department's productivity by relating total outputs to total relevant expenditure (recurrent expenditure and one-off investment). This is in line with the methodology used by the Office for National Statistics. Between 2004/05 and 2006/07, this measure increased by around 7 per cent. Our provisional estimate is that by the end of the period (end of March 2008) it will have increased by around 10 per cent.
- Looking at a broad suite of measures of the Department's performance, and allowing for the variations that always arise in the performance of individual indicators, it is clear that productivity increases have not been at the expense of the services the Department offers. In particular:
  - the new Department has moved away from a passive benefit paying system to a far more active approach, working intensively with individuals to help them back to work;
  - straightforward State Pension claims can now be taken in one 20 – 25 minute telephone call, with the customer being told at the end the amount and date of payment;
  - the security of the benefit system has been increased: losses from fraud in Income Support and Jobseeker's Allowance have been more than halved; and
  - other changes have delivered non-financial benefits: services have been extended and improved, and the Payment Modernisation Programme has contributed to the Government's financial inclusion objectives.
- Over the 2007 Spending Review period the Department's resources will reduce further as it implements a further programme of measures designed to improve efficiency. With outputs over the period expected to increase, the Department will need to make a substantial further increase in its productivity.

## An analysis of the productivity of the Department for Work and Pensions

1. This paper discusses the productivity of the Department for Work and Pensions (DWP). It updates the analysis presented in the Department's first productivity paper<sup>1</sup>.
2. The first paper covered the period 1997/98 to 2007/08 and measured only the Department's social security activity through its transition from the former Department of Social Security (DSS).
3. This paper focuses on the period from 2002/03, the Department's first full year of operation, and measures productivity for the whole Department<sup>2</sup>.
4. The productivity measures presented in this paper have been developed in the light of the recommendations of the Atkinson Review of the Measurement of Government Output and Productivity<sup>3</sup>.
5. The Atkinson Review recommended that productivity is measured as the ratio of the volume of outputs produced by an organisation for its customers to the volume of inputs. It said that output measures should take changes in the quality of the service provided into account. The review also emphasised the need to set productivity measures in context and to present corroborative evidence when using productivity measures to discuss performance.
6. Accordingly, this paper begins by setting out the context for the Department's productivity story and concludes by discussing the Department's performance over the period.

### Context

7. The Department for Work and Pensions was created after the June 2001 General Election. It brought together the Department of Social Security, primarily responsible for the administration of social security benefits, with the employment elements from the Department for Education and Employment.

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<sup>1</sup> *An Analysis of DWP Productivity 1997/98 – 2007/08*, DWP, 2006. Available online at [www.dwp.gov.uk/asd/asd5/rports2005-2006/rrep355.pdf](http://www.dwp.gov.uk/asd/asd5/rports2005-2006/rrep355.pdf)

<sup>2</sup> Data is not shown for 2001/02, the year in which the Department was formed, because the complexity of bringing together the relevant parts of the Department's predecessors' accounting systems, and the changes relating to the creation of new delivery organisations, make it difficult to compare expenditure data prior to April 2002 on a consistent basis.

<sup>3</sup> *Atkinson Review: Final Report, Measurement of Government Output and Productivity for the National Accounts*, HMSO, 2005. Available online at [www.statistics.gov.uk/about/data/methodology/specific/PublicSector/Atkinson/downloads/Atkinson\\_Report\\_Full.pdf](http://www.statistics.gov.uk/about/data/methodology/specific/PublicSector/Atkinson/downloads/Atkinson_Report_Full.pdf)

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8. This paper measures productivity for the whole Department between 2002/03 and 2007/08. The analysis spans the 2002 and 2004 Spending Review periods. These two periods were characterised by two very different funding settlements. In the 2002 Spending Review, HM Treasury provided funding for the Department's reorganisation and continued modernisation, building on investment already made in the 2000 Spending Review. In the 2004 Spending Review, whilst modernisation continued, the Department's administrative resources were reduced with the introduction of the Government's Efficiency Programme.

### The Department for Work and Pensions

9. The rationale for the creation of the new Department was to move away from a passive benefit paying system to a far more active approach, working intensively with individuals to help them back to 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.
10. 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. The Government decided to introduce a new benefit (Pension Credit) and to reform the way services were delivered for pensioners.
11. To support this reform agenda, the Department for Work and Pensions 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.

### Reorganisation and modernisation

12. As part of the establishment of the new Department, new delivery organisations were set up in the form of Jobcentre Plus, The Pension Service and the Disability and Carers Service, providing focused service and support to specific client groups<sup>4</sup>.
13. Accompanying the rollout of these new delivery organisations, major changes included the modernisation of the Department's estate, the implementation of new policies and the introduction of a new benefit, supported by a new information systems and technology infrastructure, and the improvement of business processes and customer services.
14. In Jobcentre Plus, benefit payment and job search support have been brought together into one single, modern network. Assistance has been extended to people who were previously left behind by the system. Through New Deals and Pathways to Work, the Department has targeted 'harder to help' groups, such as lone parents, those aged over 50 and disabled people.

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<sup>4</sup> Jobcentre Plus and The Pension Service were created in April 2002. The Disability and Carers Service was created in November 2004.

15. The Pension Service has transformed services to pensioners and now provides a source of valuable financial information for all those saving for retirement. The Disability and Carers Service has worked successfully with external suppliers to improve significantly its services to disabled people and carers.
16. In another of the Department's delivery organisations, the Child Support Agency, shortcomings of the design and delivery of the child maintenance system have been well-publicised. In response, a new child support scheme was introduced in April 2003. A replacement computer system was also launched to support the new scheme, but failings of this system had a detrimental effect on the Agency's performance. Over the 2004 Spending Review period, the Agency's performance has been turned around, largely through its Operational Improvement Plan. The business has been restructured, and enforcement campaigns and an ongoing debt strategy have been introduced to establish greater compliance with maintenance arrangements.
17. Through the Department's regulatory body, the Health and Safety Executive, the incidence rate of fatal and major injuries has been reduced, and steady progress is being made in relation to major hazards indicators.
18. The changes introduced through the Department's reorganisation and modernisation programme, established the Department for Work and Pensions as an organisation fit to face the challenges of the Government's Efficiency Programme in the 2004 Spending Review period.

### The Efficiency Programme

19. The Efficiency Programme, initiated by the Gershon Review<sup>5</sup>, put the Department for Work and Pensions at the forefront of the Government's drive to increase efficiency.
20. The targets that the Department was set by the Efficiency Programme put substantial pressure on the day-to-day delivery of the Department's objectives. Between March 2004 and March 2008, a total of £960 million of administrative savings and a net reduction of 30,000 staff were required. This meant that from a March 2004 baseline of around 130,000 staff, over a 20 per cent reduction had to be delivered.
21. The scale of this stretch on the Department's resources meant that risks to levels of performance, customer service and, critically, to the ability of the Department to deliver improved outcomes for those most in need, had to be carefully managed alongside the delivery of increased efficiencies.
22. As the end of the Efficiency Programme approaches, the Department is on course to achieve its headcount targets, and has already surpassed the administrative savings target. Meanwhile, levels of most performance indicators have been maintained, customer services have been improved, and improved outcomes have been delivered for many people. The Department has made a substantial contribution to the delivery of cross-government Public Sector Agreement targets.

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<sup>5</sup> *Releasing Resources to the Front Line: Independent Review of Public Sector Efficiency*, HMSO, 2004. Available online at [www.hm-treasury.gov.uk/media/C/A/efficiency\\_review120704.pdf](http://www.hm-treasury.gov.uk/media/C/A/efficiency_review120704.pdf)

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23. The productivity measures presented in this paper demonstrate that the Department is now delivering relatively more with less, and has become more productive in each year of the 2004 Spending Review period. The analysis sets out what has been achieved and how.
24. This is important because any organisation needs to understand what it is delivering in return for the money it spends, to ensure that resources are allocated in the most productive way. This analysis also plays an important part in demonstrating to taxpayers that the Department is making good use of public resources.

## Productivity

25. Productivity is calculated by dividing the Department's outputs by the resources (inputs) it has consumed in producing those outputs. The methodology that the Department uses for calculating productivity, and changes since the first paper, are outlined in Annex A of this paper.
26. The outputs that 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.
27. The Department pays around £125 billion each year to customers as benefits and pensions. To give some idea of the scale of the Department, as well as processing and maintaining benefit and pension claims, in **every working day**:
- around 7,000 of our customers find work, with Jobcentre Plus conducting 43,000 adviser interviews and receiving over 850,000 job searches on its website;
  - the Child Support Agency collects or arranges child support for over 30,000 children;
  - The Pension Service conducts over 4,400 home visits; and
  - the Disability and Carers Service receives nearly 19,000 calls through its Disability Living Allowance/Attendance Allowance helpline.

28. Measures of the Department's social security, labour market and child support outcomes are combined through a cost-weighted sum to measure the Department's overall output. Measures of output from the Department's labour market activity and from the Child Support Agency are included in the analysis for the first time here.
29. Costs of administrative activity contributing to the delivery of the Department's outputs in a given year are described as 'relevant recurrent' costs<sup>6</sup>. These recurrent costs form the basis of the Department's headline productivity measure. One-off investment is excluded, to closely reflect the cost of delivering outputs in a given year.
30. In 2006/07, the Department's recurrent costs totalled £5.9 billion. Of these costs, roughly half were staff costs, including salaries and employer's pension contributions. The other half were costs of goods and services, including the costs of accommodation, information systems and technology, employment programmes, medical testing and other contract costs.
31. The Department's headline productivity measure includes both staff and non-staff costs, and is described as a 'total factor' measure. However, other productivity measures look at performance against individual elements of the cost base. For example, measures based on staff numbers and staff costs are also useful.

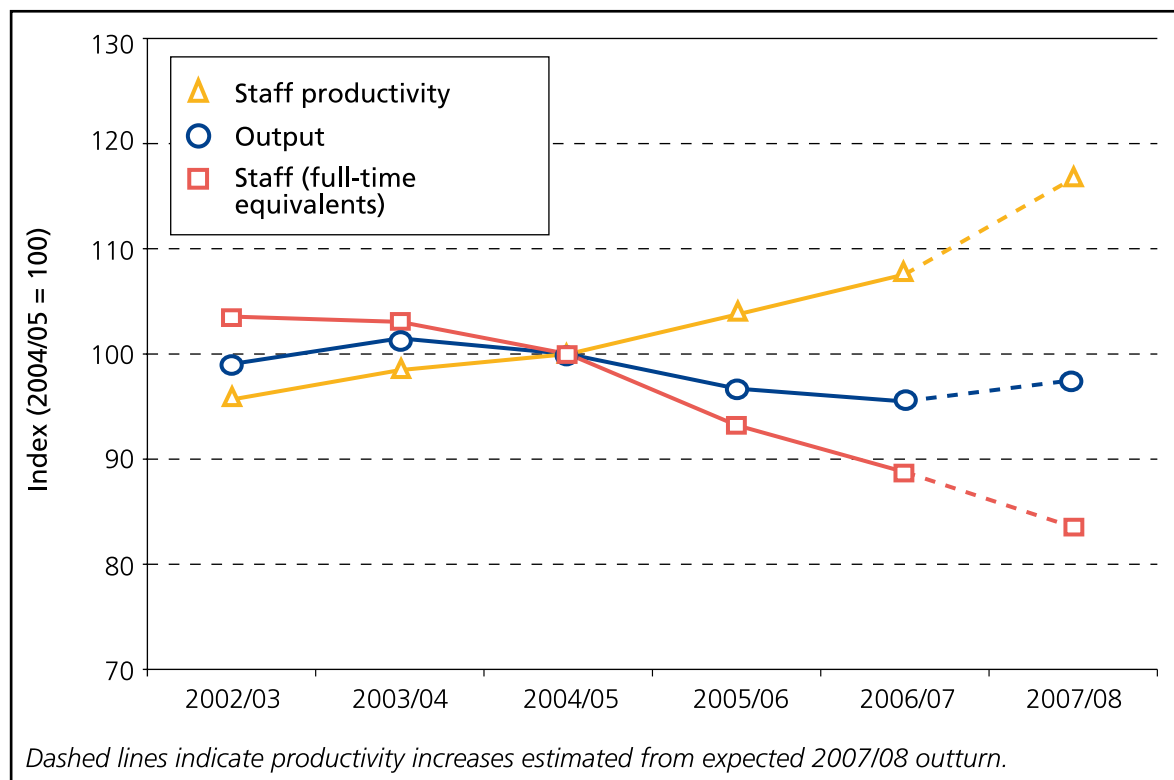
### Staff productivity

32. A key aspect of the Department's productivity story is the contribution made by its staff. On the formation of the Department, staff numbers were initially increased. The biggest increase was in The Pension Service, where additional staff facilitated the formation of the business and supported the introduction of Pension Credit. By 2004/05, and following completion of the initial Pension Credit take-up campaign, staff numbers had returned to their original level. Since then, the Department's workforce has steadily reduced.
33. Figure 1 shows the Department's staff productivity measure. This is calculated by dividing the Department's outputs by the number of full-time equivalent staff. All of the Department's staff are included in the input line. Staff working directly in delivering outputs, staff engaged in corporate activity supporting delivery, and staff working in the Department's change programmes are all included.

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<sup>6</sup> Following National Accounts convention, some administrative (DEL) costs are treated as not relevant for productivity purposes. For ease of reference, 'relevant recurrent' expenditure is referred to as 'recurrent' expenditure in this paper. Details are provided in Annex A.

**Figure 1: Department for Work and Pensions' staff productivity**



34. Between 2002/03 and 2004/05, staff productivity increased by around 3 per cent each year. Between 2004/05 and 2006/07, staff productivity increased by 8 per cent. By the end of 2007/08, it is expected that the Department will deliver its Efficiency Programme headcount reductions in full and at the same time outputs are expected to increase. Over the 2004 Spending Review period, staff productivity will have increased by an estimated 17 per cent.
35. Whilst staff numbers were reduced over time, the total volume of output delivered by the Department changed relatively little. However, there was some movement in individual outputs. The Pension Credit take-up campaign increased output to its peak in 2003/04. After this, the number of new Pension Credit claims processed reduced sharply, with new applications coming mainly from newly retired pensioners.
36. To a large extent the Department's output is driven by demand from the public for its services. The Department needs to respond to changes in society and to demographic change, as well as to economic growth and changes in the labour market.
37. Fewer outputs are therefore not necessarily an indication that performance has deteriorated. Indeed, for the Department, fewer people on out-of-work benefits is a positive outcome. By 2006/07 there were around 150,000 fewer people in receipt of Income Support, and almost 250,000 fewer new claims for Jobseeker's Allowance than when the Department was formed in 2001. The number of people on incapacity benefits has been stabilised and, over the 2004 Spending Review period, has begun to fall.

38. As numbers on out-of-work benefits have decreased, numbers of people in employment have increased. Compared with 2001, there are now 800,000 more people in work, an increase of 4 per cent. Employment rates have been improved for most of the 'harder to help' groups, and for the first time ever more than 50 per cent of lone parents are in employment.
39. It is not straightforward to assess the contribution that the Department has directly made to these increases. Performance of the labour market is influenced by a range of economic, demographic and social factors and the Department's labour market measures are susceptible to external influences. The job outcome measures used by Jobcentre Plus indicate that overall output from the Department's labour market activity was broadly maintained until 2004/05 and then decreased only slightly. This was a real achievement in a competitive environment with more people in work than ever before, where it became increasingly challenging for the Department to help individuals make the transition from benefit into work. It should however be noted that the measure of Jobcentre Plus' job outcomes performance was changed in April 2006, so this assessment is not based on a fully consistent time-series of data.
40. The Department's focus on helping the most vulnerable members of society has increased outputs in other parts of the Department. For example, the number of children benefiting from child maintenance will have increased over the 2004 Spending Review period by around 20 per cent, and the number of people claiming disability and carers' benefits has also increased year on year.
41. The staff productivity index presented in Figure 1 does not tell the full productivity story because the output measure counts outputs delivered both by staff and through other resources. The staff productivity increases seen over the period of this analysis have been delivered in part by increasing the activities delivered by each member of staff, but also by increasing the relative contribution of non-staff expenditure to the delivery of outputs. For example, as a deliberate strategy the Department has placed a greater reliance over time on technology to deliver its outputs, and has also increasingly relied on contractors to manage its accommodation.
42. A 'total factor' productivity measure that includes expenditure on goods and services as well as on staffing tells a more complete story about the underlying performance of the Department.

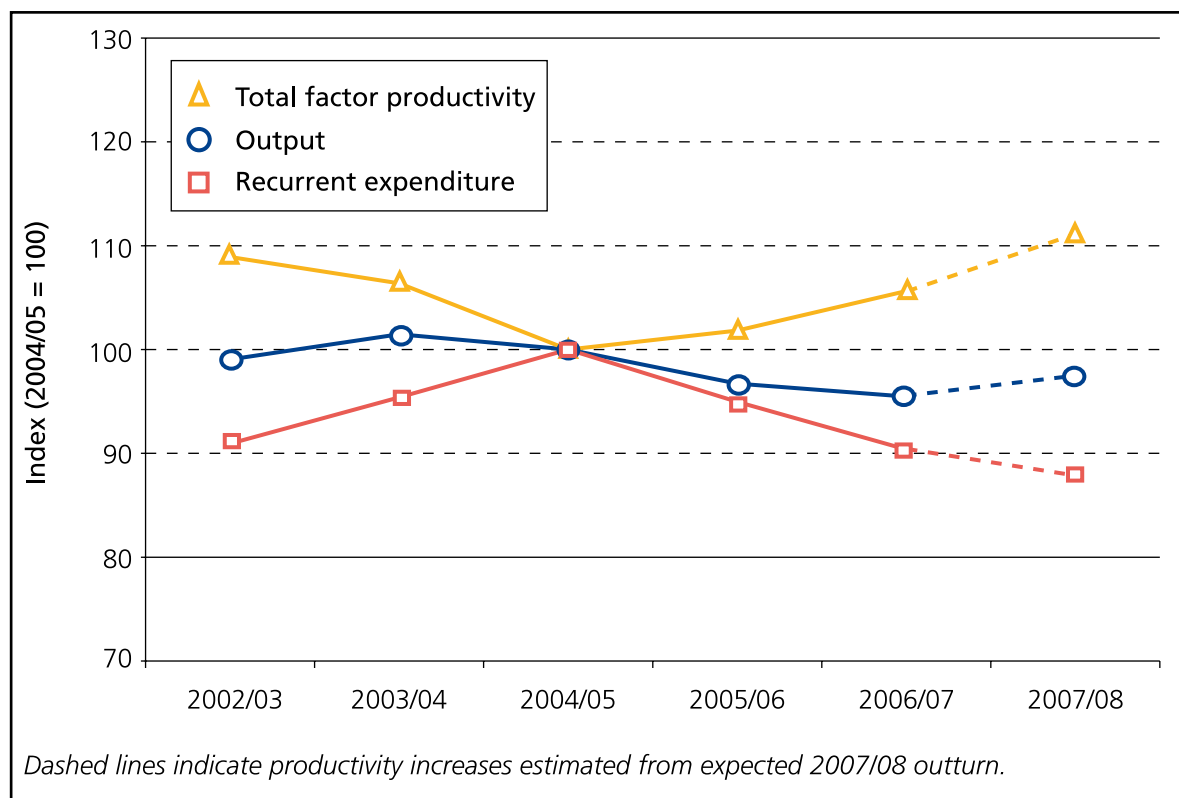
### Total factor productivity

43. The Atkinson Review recommended that expenditure on staff, goods and services and capital consumption, expressed in real terms, is described as 'relevant' for productivity purposes. The effects of annual pay and price increases are removed to allow growth in real terms to be assessed. Details are provided in Annex A.

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- 44. The total factor measure of productivity used by the Office for National Statistics is based on **total relevant** expenditure. The Department's headline total factor measure is based on its **recurrent** expenditure (total relevant expenditure less investment and one-off change costs).
- 45. The headline measure closely reflects the relationship between running costs and outputs to identify changes in the Department's productivity. Work to develop this measure has been shared with the Office for National Statistics.
- 46. Basing productivity on total relevant expenditure conveys a more positive story about the Department's productivity over the 2002 Spending Review period than the Department's headline measure. Annex B compares the measures and demonstrates that over the 2004 Spending Review period there is very little difference between the two measures.
- 47. Figure 2 shows the Department's total factor productivity measure.

**Figure 2: Department for Work and Pensions' total factor productivity**



48. Between 2002/03 and 2004/05, the Department's productivity fell by around 9 per cent. Outputs were increased in 2003/04 by introducing Pension Credit. However, recurrent costs increased at a greater rate, as the Department was modernised and reorganised to deliver better outcomes and improved customer services.
49. Productivity might be expected to dip in the short-term following a major organisational change<sup>7</sup>. For example, it may dip as staff become accustomed to new processes, and as systems are bedded in.
50. Between 2004/05 and 2006/07, the Department's productivity increased by around 6 per cent. Recurrent expenditure was reduced by 10 per cent and, although output volumes decreased, relatively more outputs were delivered for less resource.
51. The Department is on course to complete the delivery of stretching Efficiency Programme savings by March 2008. This is expected to be accompanied by an increase in output. As a result, a further productivity increase is expected in 2007/08 to take the productivity gains over the 2004 Spending Review period to around 11 per cent.
52. Whilst staff numbers have been reduced steadily since 2002/03, recurrent expenditure increased by 10 per cent in real terms between 2002/03 and 2004/05, and then reduced by the same amount to 2006/07. In 2007/08 a further reduction of around 2 per cent is anticipated<sup>8</sup>.
53. Part of the explanation for the difference between trends in staff numbers and recurrent costs before 2004/05 is that staff costs have decreased less steeply than staff numbers as a more skilled workforce has been required to deliver new and improved services to customers. But most of the explanation is that infrastructure costs, the contractual expenditure on accommodation and information systems and technology, were deliberately increased to 2004/05 as the Department modernised and increased its services to customers.
54. One-off investment costs are excluded from the headline productivity measure. But running costs are sometimes increased through the changes introduced by investment. In the 2002 Spending Review period, recurrent costs were increased steeply in this way through the creation of 26 Pension Centres to improve the service provided to pensioners, and the rollout of Jobcentre Plus offices to extend the help given to individuals to support their transition into work. Customers can now access Jobcentre Plus services at around a thousand locations across Great Britain, including at over 800 newly refurbished Jobcentre Plus offices. Touch-screen terminals and Customer Access Phones are also available in a further 120 sites, such as libraries and local authority premises.

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<sup>7</sup> In their article *Public Service Productivity: Social Security Administration* (ONS, 2006) the Office for National Statistics said 'DWP has been engaged in a heavy modernisation programme, which will not have led to immediate increases in output and therefore have had a downward effect on productivity, but which may be expected in future to lead to higher productivity'.

<sup>8</sup> Final figures will not be available until the actual outturn data has been audited, but estimates produced in January 2008 are based on actual/planned expenditure for the full year.

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55. Whilst total non-staff costs increased to 2004/05, some elements of the recurrent cost base were already being reduced. For example, by establishing direct payment as the normal method of payment for benefits and pensions, encashment costs (the costs of contracts with suppliers to deliver payments to individuals on the Department's behalf) were halved.
56. Over the 2004 Spending Review period, some further contractual savings have been delivered. For example, costs of employment programmes have been reduced through negotiations with suppliers. Further reductions in accommodation, information systems and technology and other contract costs are planned for the 2007 Spending Review period.

## Performance

57. To put the productivity measures into context, the achievements of the Department over the period, and the way in which services are delivered to the public, must be considered.
58. Looking at performance across all of the Department's services and taking account of wider measures of customer service, the Department has a strong record.
59. Through the 2004 Spending Review period, the Department for Work and Pensions has led on ten Public Service Agreement targets. The most recent report on these was published in the Department's 2007 Autumn Performance Report<sup>9</sup>. Good progress has been made in most areas, but some of these targets will not be met because of conscious, value for money decisions not to implement policy as originally envisaged, or where pursuit of the original target is no longer considered to represent good value for money. For example, despite significant campaigns to encourage take-up of Pension Credit, the number of customers responding to such campaigns has reduced over time. The Department continues to look at further ways to identify those who may be entitled to Pension Credit and encourage them to apply. However, it would not represent value for money to repeatedly press unwilling eligible people to take up their entitlement.
60. Other targets have become more challenging than originally envisaged because of economic and demographic changes. For example, higher average incomes for all households and trends towards more lone parents living on their own with their children work against the target to reduce the number of children in relatively low income and workless households. Despite effective policies these targets are unlikely to be fully met. Nevertheless, good progress has been made.
61. Whilst performance on Public Service Agreement targets is important, they only cover a small proportion of the Department's activities. Evidence is presented below to demonstrate that over time the Department has delivered better outcomes and improved services for a wide range of individuals.

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<sup>9</sup> *DWP Autumn Performance Report 2007: Progress against Public Service Agreement (PSA) targets*, DWP, 2007. Available online at [www.dwp.gov.uk/publications/dwp/2007/autumnreport](http://www.dwp.gov.uk/publications/dwp/2007/autumnreport)

### Better outcomes for individuals

62. Since the Department was created in 2001 it has made considerable progress across all of its objectives:
- there are now more people in work than ever before. The UK continues to have one of the strongest labour markets in the world with an employment rate ahead of Japan and the United States of America – and one of the top four in the European Union ahead of France, Germany, Italy, Ireland and Spain;
  - for the first time in the Department's history more than 50 per cent of lone parents are in employment;
  - there are 150,000 fewer people on out-of-work benefits;
  - the number of people on incapacity benefits has stabilised and has begun to fall for the first time in a generation;
  - there are 200,000 fewer children in relative poverty<sup>10</sup>;
  - the number of pensioners living in relative poverty has fallen by around 700,000 between 2002/03 and 2005/06, with the introduction of Pension Credit; and
  - legislation has been introduced to give full civil rights to disabled people.

### Improved customer focus

63. The service given to customers has been significantly improved since 2001:
- Jobcentre Plus has brought together the payment of benefits and help in looking for work into one single, modern network. This means the support offered to people who are on benefits, but were previously left behind by the system, can be extended. People can also conduct job searches online, through the Jobcentre Plus website.
  - The Pension Service has transformed the service provided to pensioners, and also provides a source of valuable financial information for all those saving for retirement. State Pension claims can now be taken by telephone and, in the most straightforward cases, at the end of a 25 minute call the customer can be told the amount and the date of their first payment. The total time to process a State Pension claim has been reduced by 40 per cent since the roll-out of The Pension Service.

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<sup>10</sup> Since 1997/98, the baseline for the Public Service Agreement target, 600,000 children have been lifted out of relative poverty.

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- Not only can applications for Pension Credit be taken over the phone, but key information forming the basis of a claim for Housing Benefit or Council Tax Benefit can be taken at the same time. A Local Service offers face-to-face support for those who need it.
  - The Disability and Carers Service has worked successfully with external partners to improve significantly its services to disabled people and carers.
  - 98 per cent of benefits are now paid directly into customers' bank or building-society accounts. This is more convenient for individuals, and contributes to the Government's financial inclusion objectives.
64. Customer service standards take into account a wide range of measures, such as the timely and accurate handling of claims, the answering of phone calls, and 'mystery shopper' measures. Performance against most of these measures has been maintained or improved.
65. Employers' satisfaction with services provided by the Department to advertise vacancies and meet their recruitment needs is measured through the Employer Outcome Target. This target has been exceeded every year since 2004/05.
66. The incidence rate of fatal and major injuries has fallen, and steady progress is being made in relation to major hazards indicators. Although work-related ill-health indicators in 2006/07 reversed the previous downward trends in this area, the Health and Safety Executive is working to address the underlying issues.

### Better outcomes for the taxpayer

67. The Department has also delivered better outcomes for the taxpayer. The taxpayer has benefited from efficiency savings and increased productivity, as already demonstrated. The taxpayer has also received better value for money through a more secure benefit system which ensures that benefits are paid only to those who are entitled to them.
68. The amount of money lost to fraud from Income Support and Jobseeker's Allowance has been more than halved, from £600 million in 2001/02, when the Department was formed, to £240 million in 2005/06. The Department's fraud strategy was praised in a recent report by the National Audit Office (NAO). When comparing with the security of social security provision in other countries, the NAO stated that 'the Department for Work and Pensions has a better understanding than agencies in other nations of these problems, and is doing more to tackle them.'<sup>11</sup>
69. Encashment costs and losses from method of payment fraud have been reduced by establishing Direct Payment as the normal and secure method of payment. The Payment Modernisation Programme has reduced costs by more than £1 billion over five years.

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<sup>11</sup> *Department for Work and Pensions: Progress in tackling benefit fraud*, NAO, 2007. Available online at [www.nao.gov.uk/publications/nao\\_reports/07-08/0708102.pdf](http://www.nao.gov.uk/publications/nao_reports/07-08/0708102.pdf)

## The future

70. Significant progress has been made to increase the number of people in work and to reduce the economic inactivity rate. But there is more to be done to deliver opportunity for work as the best route out of poverty for everyone, to end social exclusion and to respond to the ageing population challenge.
71. The Department faces a formidable work programme over the next three years:
- The Department will roll out Pathways to Work nationally by April 2008. It will introduce the new Employment and Support Allowance from late 2008. The allowance will provide support for people with health conditions and disabilities to focus on their aspirations and return to work where this is possible, whilst retaining support for those who need it.
  - The new Personal Accounts Delivery Authority will be created as part of the Government's wider pension reform programme. The authority will set up the new system of 'personal accounts', based around the principle of auto-enrolment, to help people who currently do not have access to a work-based pension to make provision for their retirement.
  - The successor to the Child Support Agency, the Child Maintenance and Enforcement Commission, will be launched. This will help transform the system of child maintenance by enabling and encouraging parents who live apart to reach their own child-maintenance arrangements.
  - The way the Department delivers services to customers will be transformed by implementing an ambitious, Department-wide change programme. Based around a vision of 'Work, Welfare, Well-being, Well delivered' the programme aims to join up the Department's services based on a deeper understanding of customers' needs to achieve the best outcomes for them, while driving out waste and increasing efficiency.

## The future productivity challenge

72. In the 2007 Comprehensive Spending Review period, the Department has further resource reductions to make in order to live within the resource settlement agreed with HM Treasury, a 5 per cent year-on-year real terms reduction to 2010/11.
73. With these resource reductions and outputs expected to increase, mostly due to the rising pensioner population, there will be greater demands placed on the Department than ever before in delivering the day-to-day services to customers. The Department plans to deliver a further step change, increasing its productivity by an estimated 20 per cent over the 2007 Spending Review period. This is about twice what was delivered over the 2004 Spending Review period.

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74. The Department's Three Year Business Plan<sup>12</sup> sets out how the Department will respond to the further efficiency challenge, by introducing streamlined customer processes to improve customer service and to increase efficiency.
75. The transformation carried out in the Department from its inception means that the Department is in a strong position to face the additional efficiency challenge of the next three years, and to deliver even greater productivity increases.

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<sup>12</sup> *Department for Work and Pensions: Three Year Business Plan 2008-11*, DWP, 2008. Available online at [www.dwp.gov.uk/publications/dwp/2008/3yrplan/](http://www.dwp.gov.uk/publications/dwp/2008/3yrplan/)

## Annex A – Measuring the Department for Work and Pensions' productivity

1. Productivity is calculated by dividing the Department's outputs by the resources (inputs) it has consumed in producing those outputs.
2. This annex provides details that explain how input, output and productivity indices are constructed so that changes in the Department's productivity can be measured on a consistent basis<sup>13</sup> over time.
3. The methodology has been developed through work with the Office for National Statistics, building on recommendations from the Atkinson Review. Whilst only a part of the Department's productivity measure is currently used in National Accounts, work to develop an overall measure for the Department has been shared with the Office for National Statistics, and follows the principles established by the Atkinson Review.

### Inputs

4. Following the recommendations of the Atkinson review, only administration (DEL) expenditure is used in the Department's input measure. Benefit expenditure (AME) is excluded.
5. To illustrate how DEL expenditure is treated, figures are presented here for the most recent, complete financial year, 2006/07, when the Department's total DEL administration budget totalled £7.8 billion.
6. In line with advice from the Atkinson Review, only expenditure on pay and pensions costs of staff employed, current expenditure on goods and services, including hire of consultants and contractors, and consumption in respect of capital assets is treated as 'relevant' for productivity purposes. Capital and other expenditure<sup>14</sup> is excluded. For 2006/07, £6.6 billion is treated as relevant expenditure. This includes money spent by the Department through third-party suppliers.

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<sup>13</sup> Since the measure of Jobcentre Plus' job outcomes performance was changed in April 2006, this assessment is not based on a fully consistent time-series of data. But the data is believed to provide a reasonable estimate of changes over time.

<sup>14</sup> Examples of 'other' excluded expenditure are: grants and subsidies paid to local authorities for the administration of Housing Benefit and Council Tax Benefit, and payments made to individuals participating in New Deal schemes or through the Financial Assistance Scheme.

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7. The Department's headline productivity measure is based on its recurrent expenditure on administrative activity. One-off expenditure (the cost of investment and other one-off change<sup>15</sup>) is excluded, to closely reflect expenditure on the delivery of current outputs. In 2006/07, £0.7 billion of relevant expenditure was spent on one-off investment. The remaining £5.9 billion was spent by the Department in delivering outputs produced in that year.
8. Of these costs, roughly half are staff costs and half are costs of goods and services. The Department owns very few assets, so consumption in respect of capital assets accounts for a very small proportion, around 2 per cent, of recurrent costs.
9. Resources, such as accommodation and information systems and technology, are provided under contract with suppliers. The Department also incurs substantial costs associated with the administration of its employment programme, and with medical testing and encashment contracts.
10. As inflation causes prices to rise over time, it is necessary to deflate expenditure so that it is expressed in constant prices. Separate deflators are used for staff and non-staff expenditure to account for the different annual rates of change in these two areas<sup>16</sup>.
11. The deflated expenditure in each year is then indexed by dividing it by the expenditure in a baseline year. 2004/05 is used as the baseline year in this paper, as it was the first full year of the Efficiency Programme, and so is consistent with the baseline for the Gershon targets. The index expresses growth in real terms over time.

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
<b>Relevant recurrent expenditure</b> In-year prices (£ million)	5,094	5,590	5,991	5,974	5,874	5,888
<b>Relevant recurrent expenditure</b> Deflated to 2004/05 prices (£ million)	5,448	5,714	5,991	5,690	5,415	5,260
<b>Input index</b>	90.9	95.4	100.0	95.0	90.4	87.8

12. Comparing 2006/07 to 2007/08, unadjusted recurrent expenditure is expected to rise slightly. However, when the effects of inflation are removed, we can see an anticipated reduction in real terms of around 3 per cent<sup>17</sup>.

<sup>15</sup> Payments from the Early Release Fund made to individuals taking voluntary early severance or retirement are excluded.

<sup>16</sup> A staff costs deflator has been created that is based on median Civil Service salaries, but which takes into account the rise in employers' pension contributions in 2005/06. Non-staff costs are deflated using Gross Domestic Product.

<sup>17</sup> Because the index presents growth relative to the baseline year, the growth between any two years is not simply the difference in the values of the index, rather the percentage difference in the index. For example, between 2006/07 and 2007/08 expenditure fell by  $(87.8 - 90.4) / 90.4 = 3\%$

## Outputs

13. The Department's output index combines measures of the Department's social security, labour market, and child support outcomes through a cost-weighted sum. This expresses the volume of output produced each year in monetary terms, and in baseline year prices. This can then be added to expenditure on the Department's policy and regulatory functions, when these too are expressed in baseline prices.
14. In the Department's output measure for the most recent, complete financial year, 2006/07:
  - 53 per cent of the weight is associated with the administration of social security benefits and pensions from Jobcentre Plus, The Pension Service, and the Disability and Carers Service;
  - 32 per cent is associated with the delivery of labour market activities by Jobcentre Plus and its partners;
  - 9 per cent is associated with the Child Support Agency's activities;
  - the remainder, 6 per cent, is associated with the Department's policy development and regulatory functions<sup>18</sup>.
15. The measurement of each of these components of the Department's output index is described in turn below.
16. Measures of output from the Department's labour market activity and from the Child Support Agency are included in the analysis for the first time in this paper. Expenditure on policy functions has been separated out for the first time too. These changes mean that around 94 per cent of the Department's relevant expenditure is now associated with measured output volumes in the output measure. This compares with around 53 per cent in the first paper.

## Social Security activity

17. Volumes of benefit and pension claims processed and maintained, and of future pension forecasts produced are added together in a cost-weighted sum to form the Department's social security output measure. Details were provided in the first productivity paper<sup>19</sup> and are summarised below.

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<sup>18</sup> The Health and Safety Executive and activities delivered on behalf of other Government Departments account for most of the cost here.

<sup>19</sup> *An analysis of DWP productivity 1997/98 – 2007/08*, DWP, 2006. Available online at [www.dwp.gov.uk/asd/asd5/rports2005-2006/rrep355.pdf](http://www.dwp.gov.uk/asd/asd5/rports2005-2006/rrep355.pdf)

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18. Social security output measures are grouped along client group lines<sup>20</sup> as follows:
- Jobcentre Plus: working age benefits (Income Support, Jobseeker's Allowance, Incapacity Benefit, Social Fund) processed and maintained.
  - The Pension Service: pensioner benefits (State Pension, Pension Credit, both at home and overseas) processed and maintained, future pension forecasts produced.
  - Disability and Carers Service: disability and carers benefits (Disability Living Allowance, Attendance Allowance, Carer's Allowance) processed and maintained.
19. All related activity costs have been mapped onto these output measures. This means, for example, that the provision of associated information and advice is included as an activity, even though output is not measured separately.
20. In order to express the social security outputs in a common currency, each output volume is multiplied by the unit cost of producing it. These unit costs include apportioned overhead, corporate and support costs, and are described as 'total factor' unit costs. The application of the unit costs converts individual output volumes into cost-weighted outputs. These can then be added together to produce a single measure of the Department's social security output, weighted to reflect the resources required to deliver them.
21. Over time the mix of outputs delivered by the Department can change, for example because of changing priorities or through the realisation of efficiencies in delivering individual types of outputs. This has implications for the relative sizes of the unit costs. To accommodate such changes, the unit cost of each output is updated annually. A process called 'chain-linking' is used to join later output measures to the baseline output measure. This ensures that the output measure consistently reflects prices in the baseline year, while growth from each year to the next is assessed as accurately as possible.
22. The outputs aligned with Jobcentre Plus contribute the most to the **social security** measure – around 64 per cent of the measure in 2006/07. Outputs aligned with The Pension Service contribute 26 per cent, and those aligned with the Disability and Carers Service contribute the remaining 10 per cent.
23. These measures have been developed and agreed with the Office for National Statistics. They are used by the Office for National Statistics to report growth in public sector output in National Accounts, and combined with measures from other Government Departments to measure social security administration productivity.

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<sup>20</sup> Individual output measures are grouped in this way for convenience. In practice, operational activities carried out by one delivery organisation may contribute to the delivery of output aligned with another. For example, the local service provided by The Pension Service provides advice and support to disabled people and their carers.

### Labour Market activity

24. The Department has a key responsibility to help and support individuals who are looking for employment, and works closely with its partners to deliver this role. The Department's labour market measure accounts for around a third of the total DWP output measure.
25. Output from the Department's labour market and employment programme activity is estimated from the measures used to assess the Department's job outcomes performance: the Job Entry Target (JET) to 2005/06, and then, from April 2006, the Job Outcome Target (JOT). These are outcome, rather than output, measures, because individuals essentially secure jobs for themselves. The measures are also susceptible to influence by a range of external factors, particularly economic issues, arguably reducing their usefulness in assessing Departmental productivity. However, as JET and JOT outcomes are recorded only following an interaction with the Department, they do represent a reasonable proxy for the Department's labour market outputs.
26. A system of explicitly weighted point scores for outcomes achieved is used by both the JET and JOT targets. This signals the weight that is placed on outcomes achieved, focusing on delivery of the Government's priorities.
27. JET points were scored when a **direct link** could be established between a Jobcentre Plus intervention and an individual moving into work. With the modernisation of Jobcentre Plus, new channels became available to individuals seeking work which encouraged them to directly approach employers. Performance achieved in this way could not be captured under JET, as the outcomes wouldn't necessarily be notified to the Department and the direct link with relevant Departmental activity could not be established. This means that under the JET target, performance was increasingly under-recorded over time. However, the extent to which JET under-recorded DWP labour market success cannot be quantified with any precision, and for this reason, and for consistency with other published sources, no adjustment is made for this under-recording in the Department's productivity measure.
28. Recorded JET points decreased slightly, by around 5 per cent, between 2004/05 and 2005/06. However, estimates of unrecorded outcomes suggest that overall volumes of job entries may actually have been maintained between these years.

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29. The JET measure was replaced by the JOT measure as an operational target in April 2006, following piloting of the new measure in several Jobcentre Plus districts during 2005/06. The JOT measure matches Jobcentre Plus customers against P45/P46 employment information obtained from HM Revenue and Customs. Potentially all movements into work following interaction with Jobcentre Plus are recorded, regardless of the level or intensity of the intervention. This means that JOT is much more in line with the Department's strategic aim of advocating the use of new modernised channels and self-help for those clients for whom this is appropriate. By making use of data collected by HM Revenue and Customs, JOT is a much more efficient measure than its predecessor, which required considerable staff resource to track and capture outcomes achieved.
30. JOT data is available for the full 2005/06 financial year, and has been used to measure changes in the Department's labour market outputs from 2005/06. However, because JOT was not an operational target in 2005/06 the time series is not fully consistent. JOT points decreased slightly, by 6 per cent, between 2005/06 and 2006/07, although there are signs that outcomes have stabilised since JOT was introduced nationally as a Jobcentre Plus target. However, this overall assessment should be interpreted cautiously because it is not based on a fully consistent time-series of data.
31. The broader measures of labour market performance discussed in the main paper tell a more positive story. Across the UK, the number of people in employment is at its highest ever level. Good progress has been made in closing the gaps between the national employment rate and the employment rate of disadvantaged groups, such as lone parents, disabled people, and those aged over 50.
32. Given the contextual labour market information available, and the nature of the Department's labour market work in supporting individuals to make the transition to work, it would be wrong to suggest that JET/JOT represents a fully comprehensive picture of the Department's labour market performance. However, the measure does offer the best available estimate of the Department's success in getting people jobs and, as such, represents a reasonable proxy for labour market output for use within the Department's productivity index.
33. This approach was endorsed by the Atkinson Review<sup>21</sup> and outlined in the Department's first productivity paper. Development work has been discussed with the Office for National Statistics, and data is presented for the first time here.

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<sup>21</sup> 'We also recommend that ONS should take advantage of the development of a quality-adjusted direct measure of Jobcentre Plus labour market outputs', Atkinson Review Final Report, 2005 (see footnote 3).

### Child Support activity

34. Output from the Child Support Agency uses the Agency's measure of the number of children benefiting from maintenance collection or maintenance arrangements. This measure counts statutory cases, where children benefit from maintenance payments collected by the Agency, and private cases, where the Agency assesses the level of maintenance to be paid but payments are made directly to the parent with care from the non-resident parent. Voluntary arrangements, where the Agency has had no involvement, are not counted.
35. The number of children benefiting from the Agency's activity will have increased by around 20 per cent over the 2004 Spending Review period. Before this the Agency's shortcomings were well publicised. The number of children benefiting decreased by around 5 per cent between 2002/03 and 2004/05, but the Agency's Operational Improvement plan is making significant improvements in performance.

### Policy and Regulatory Functions, and work carried out on behalf of others

36. A range of activities carried out in the Department cannot be directly associated with the output measures described above:
  - Work to develop new policies is a key part of the Department's activity, but work on any individual policy may be short-lived, and total expenditure on policy development can vary over time. Because each policy is different, in terms of scale and complexity, it would not be appropriate to use the number of policies developed as a measure of output.
  - Regulatory work, such as the work carried out by the Health and Safety Executive, has not yet been represented in the productivity analysis of the Department explicitly.
  - Work the Department carries out on behalf of other organisations, such as the process of obtaining National Insurance numbers for immigrants. This activity does not contribute to a DWP output, but expenditure is included in the Department for Work and Pensions input measure, to maintain consistency with the National Accounts.
37. In the first productivity paper, expenditure on these activities was treated as an overhead, and apportioned across the measured outputs. In this paper, expenditure on these activities has been included on an Output=Input basis. This is the convention used by National Accounts when direct measures of output volumes are not available. It means that the volume of output in any year is measured by the volume of expenditure on these functions. Together, these functions accounted for around 7 per cent of the DWP output measure in 2006/07.

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## Productivity

38. Using the steps outlined above, both the input and output measures are expressed consistently, in baseline year prices, and indexed relative to that baseline year.
39. Productivity is calculated by dividing the Department's output index by the input index. The table below shows the Department's input, output and productivity indices:

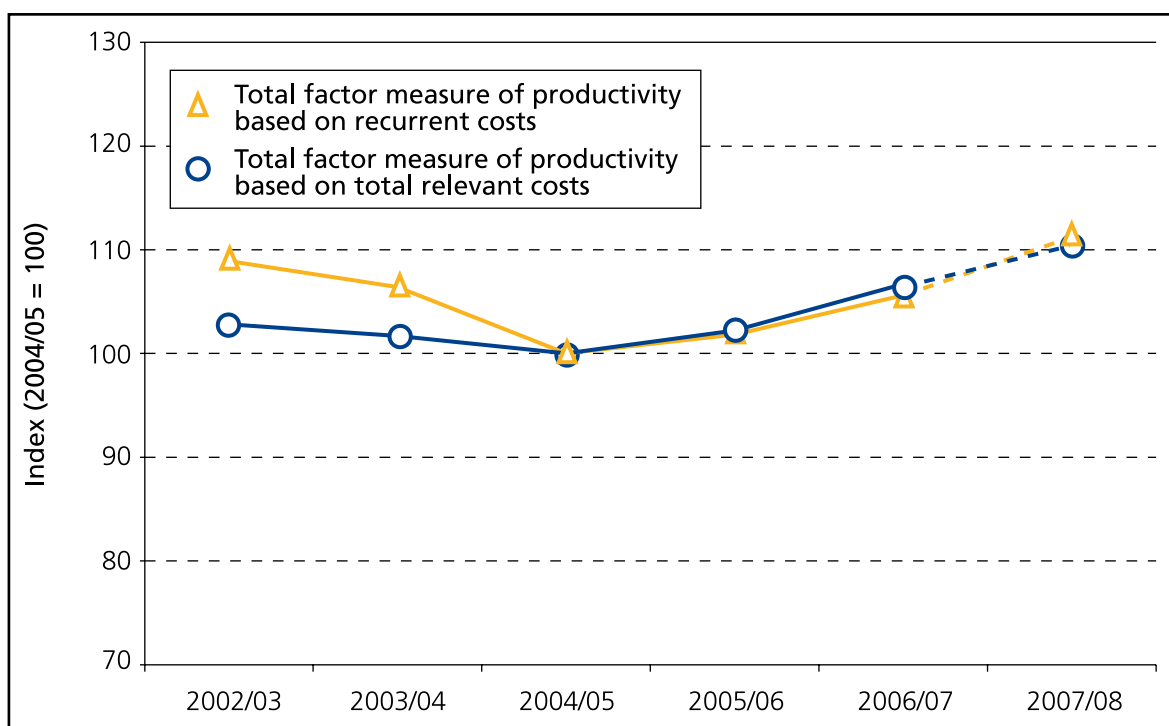
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
<b>Relevant recurrent expenditure index (1)</b>	90.9	95.4	100.0	95.0	90.4	87.8
<b>Output index (2)</b> Cost-weighted, Chain-Linked	99.0	101.5	100.0	96.7	95.5	97.5
<b>DWP productivity (2)/(1)</b> Headline measure, based on recurrent expenditure	108.9	106.4	100.0	101.8	105.6	111.0

40. The reduction in inputs and increase in outputs expected in 2007/08 will have a positive impact on productivity. So, by the end of 2007/08, we estimate that productivity will have increased by around 11 per cent since 2004/05.

## Annex B – Comparing total factor productivity measures

1. The total factor measure of productivity recommended by the Atkinson Review divides the volume of outputs delivered by **total relevant** expenditure on labour and goods and services together with an estimate of capital consumption (with pay and price changes removed).
2. The Department's headline total factor measure is calculated by dividing the Department's outputs by its **recurrent** expenditure (the total relevant expenditure less investment and one-off change costs).
3. The chart below compares the Department's headline measure of productivity with a measure of the Department's productivity based on total relevant costs.

**Figure 3: Comparison of total factor measures**



4. The measure based on total relevant expenditure conveys a more positive story about the Department's productivity over the 2002 Spending Review period than the Department's headline measure. It shows a smaller fall in productivity of around 3 per cent between 2002/03 and 2004/05. This is because levels of investment were particularly high in the Department at the start of the period and lower levels followed. The headline measure is used to identify changes in the Department's productivity because returns from investment in the 2002 Spending Review period have not yet fully materialised. There is often a time lag between making an investment and realising the benefits, and in some cases the benefits are not financial (the benefits may, for example, be improvements in quality).

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5. The measure based on recurrent expenditure is used as the headline measure because it closely reflects the relationship between running costs and outputs. Over the 2004 Spending Review period there is very little difference between the two total factor measures.

This report can be accessed online at:

**[www.dwp.gov.uk/publications/  
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