DfC
Department for Communities
www.communities-ni.gov.uk

Annual Report and Accounts

for the year ended 31 March 2018

Annex includes Child Maintenance Service Client Funds Account 2017–18

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Department for Communities
Annual Report and Accounts
for the year ended 31 March 2018

Laid before the Northern Ireland Assembly by the Department of Finance under section 10(4) of the Government Resources and Accounts Act (Northern Ireland) 2001

3 July 2018

Contents

Performance Report

The purpose of the performance section of the annual report is to provide information on the Department, its main objectives and strategies and the principal risks that it faces. The requirements of the performance report are based on the matters required to be dealt with in a Strategic Report as set out in Chapter 4A of Part 15 of the Companies Act 2006 adapted for the public sector.

Section 1 – Overview

Accounting Officer's Report

These accounts consolidate the financial information of the Department for Communities (DfC) for the financial year to 31 March 2018. These are the second set of accounts for DfC which was formed on 9 May 2016 following the restructuring of the Northern Ireland Departments. The Department's annual budget remained at almost £7 billion and some 8,000 staff continued to be employed (one third of the NI Civil Service).

The Department provides support to meet the needs of some of the most disadvantaged citizens, families and communities across Northern Ireland. Areas of DfC responsibility included delivery of the social welfare system including child maintenance support, providing advice for those seeking employment, ensuring the availability of good quality and affordable housing, facilities for sports and leisure, supporting local government, maintaining museums and revitalising town and city centres. In delivering these services DfC achieved a wide range of Programme for Government (PfG) targets and commitments, and worked in partnership with other statutory and non-statutory bodies.

Although we operated in a challenging financial and political environment following the dissolution of the Northern Ireland Assembly on 16 January 2017, and putting in place plans for the proposed withdrawal from the European Union, the Department performed well against the targets it had set.

In summary the Department for Communities achieved or part achieved 38 of our 49 targets set in 2017-18.

Purpose and Activities of the Department

DfC is the largest of nine Northern Ireland departments. It was established under the Departments Act (Northern Ireland) 2016. During the period of this annual report, DfC had strategic responsibility in Northern Ireland for setting policy, bringing forward legislation and resourcing in the following areas:

- Housing
- Urban regeneration
- Sport
- Benefits and pensions
- Social legislation
- Helping people find employment
- Arts and culture
- Museums and libraries
- Child maintenance
- Voluntary and community sector and the regulation of charities
- Ulster Scots and Irish Language
- Historic environment
- Local government
- Public Records Office

DfC Responsibility for Funds

- **The National Insurance Fund**, within the remit of HM Revenue and Customs (HMRC), is excluded from the consolidation and the summary of resource outturn in the Statement of Assembly Supply. However, certain elements are included in the remaining primary statements. These are contributory benefits, all administration costs and their related assets and liabilities.

- **The Social Fund,** which is consolidated within the primary statements.

- A **Client Funds Account** to control the receipt and payment of child maintenance and fees from non-resident parents and parents with care. Child maintenance is collected from paying parents (non-resident parents) and paid over to the receiving parent i.e. parent/person with care of the children. This fund is prepared as a separate account and is not consolidated within these accounts. The Client Funds Account is attached at Annex A.

- **The Northern Ireland Central Investment Fund for Charities** into which NI charities invest funds. We pay dividends twice yearly and invest the capital of the Charitable Donations and Bequests Fund. These funds are not consolidated within these accounts as no Departmental funds are involved.

Public Bodies Outside our Accounting Boundary

In fulfilling its role, DfC currently has responsibility for 15 Non-Departmental Public Bodies (NDPBs) that sit outside its accounting boundary. These are:

Executive Non-Departmental Bodies (NDPB's)

Executive NDPB's are those with executive, administrative, commercial or regulatory functions. They carry out set functions within a government framework, but the degree of operational independence varies.

- **Armagh Observatory and Planetarium** was set up under the Armagh Observatory and Planetarium (NI) Order 1995 and under the Companies (NI) Order 1986.
  - It is registered as a company limited by guarantee and has charitable status. Its purpose is to advance the knowledge and understanding of astronomy and related sciences through the execution, promotion and dissemination of astronomical research nationally and internationally in order to enrich the intellectual, economic, social and cultural life of the community.

- **Arts Council of Northern Ireland** established under the Arts Council (Northern Ireland) Order 1995. The functions of the Arts Council are as follows:
  - to develop and improve the knowledge, appreciation and practice of the arts
  - to increase public access to and participation in the arts
  - to advise the Department and other government departments, district councils and other bodies on matters relating to the arts
  - such other functions as are conferred on the Council by any other statutory provision.

- **The Charity Commission for Northern Ireland (CCNI)** was established in June 2009 under the Charities Act (Northern Ireland) 2008. The main objectives of this Act are to provide an integrated system of registration and regulation of charities in Northern Ireland and supervision and support of registered charities.

- **Commissioner for Older People Northern Ireland (COPNI)** was established under the Commissioner for Older People Act (Northern Ireland) 2011. The COPNI has promotional, advisory, educational and general investigatory powers and duties.
  - It champions the rights and interests of older people throughout Northern Ireland.

- **Libraries Northern Ireland (Libraries NI)** established under The Libraries Act (Northern Ireland) 2008. The primary duty of Libraries NI is the provision of comprehensive and efficient public library services for persons living, working or studying in Northern Ireland. In doing so, the organisation ensures that facilities are available for the borrowing of, or reference to, library materials sufficient in number, range and quality to meet the requirements of adults and children whilst:
  - encouraging both adults and children to make full use of the library service
  - providing advice as to the use of the library service and making available such bibliographical and other information as may be using the service
  - promoting literacy and lifelong learning
  - maintaining a collection of library materials relevant to the cultural heritage of Northern Ireland
  - making library premises available for cultural and community activities
  - meeting any special requirements of adults and children by any appropriate means.

- **Local Government Staff Commission Northern Ireland** established under the Local Government Act (Northern Ireland) 1972. Its powers were later extended under the 1976 and 1981 Northern Ireland Housing Orders and the Local Government (Miscellaneous Provisions) (NI) Order 1992.
  - In general, the terms of reference for the Commission are to exercise 'general oversight of matters connected with the recruitment, training and employment of officers of councils and the Northern Ireland Housing Executive and of making recommendations to councils and the Northern Ireland Housing Executive on such matters'. The NI Executive agreed that the Local Government Staff Commission should be wound up on 31 March 2017.
  - However, this timetable was not achievable. The intention now is to dissolve the Local Government Staff Commission as soon as the consultation process, and Assembly process, on the Dissolution Order allows.

- **National Museums NI (NMNI)** established under the Museums and Galleries (NI) Order 1998, which established the functions of NMNI as follows:
  - to care for, preserve and add to the collections
  - ensure that the collections are available to the public through exhibitions, effective interpretation, research and study

– promote the awareness, appreciation and understanding of art history and science, the way of life and traditions of people, with particular reference to the Museums and Galleries (Northern Ireland) Order 1998.

- **The Northern Ireland Museums Council (NIMC)** is a company limited by guarantee. NIMC is also a registered charity and the charitable status means it must comply with the accounting requirements of the Charities Statement of Recommended Practice (SORP) as well as the requirements of the Financial Reporting Manual (FReM). Its purpose is to support regional and local museums in Northern Ireland and maintain and improve the standards of collections' care and service to the public. It also aims to promote a coherent framework of museums provision.

- **The Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC)** is a NDPB sponsored by the Department, which was established on 1 April 1950 by the Local Government (Superannuation) Act, to administer and maintain a fund providing pension benefits for employees of local authorities and other admitted bodies. The Local Government Pension Scheme (LGPS) Northern Ireland is managed by NILGOSC.

- **The Northern Ireland Commissioner for Children and Young People (NICCY)** is a NDPB sponsored by the Department which was established in October 2003 under the Commissioner for Children and Young People (Northern Ireland) Order 2003. NICCY's principal aim is to safeguard and promote the rights and best interests of children and young people up to the age of 18 or up to 21 for those with a disability or who have experience of being in the care of the state.

- **The Northern Ireland Housing Executive (NIHE)** is the regional strategic housing authority for Northern Ireland. For National Accounts purposes NIHE was historically classified as a public corporation. From 1 April 2014, following a request from the Office for National Statistics (ONS), this classification changed. For National Accounts purposes, the regional strategic functions of the NIHE are now classified as a NDPB and the landlord functions carried out are classified as a quasi corporation within the NDPB.

- **Sport Northern Ireland (SNI)** was established under the Recreation and Youth Service (NI) Order 1986. It is the leading body for the development of sport in Northern Ireland. SNI is committed to ensuring that sport and physical recreation is accessible for everyone, regardless of age, gender, race, disability, marital status, sexual orientation, dependency, religious belief or community background.

- **Ulster Supported Employment Limited (USEL)** is a not for profit organisation which has both NDPB and charitable status. It is supported and funded by government. USEL was established in 1962 with the aim of providing supported paid employment for people with disabilities within its Belfast manufacturing base. USEL's vision is to be the best at assisting people with disabilities meet their employment aspirations. Each year it supports over 1,500 people with disabilities in more than 750 companies to enter or maintain employment through employment programmes. Today the organisation spans the whole of the province with offices in Belfast, Londonderry, Portadown and Omagh.

- **The Northern Ireland Events Company (NIEC)** was incorporated as a limited liability company in 1997 with a remit to support major events in Northern Ireland. The company was controlled by a Board of publicly appointed Non-Executive Directors. Day to day operational management of NIEC was carried out by an executive management team, led by a Chief Executive, who was the designated Accounting Officer. Following the failure of the company, the Public Accounts Committee produced a report in February 2016 with the Memorandum of Reply presented to the Northern Ireland Assembly on 22 June 2016.

  All former Directors of the NIEC have accepted undertakings or a judgement has been applied preventing them from acting as Company Directors. Departmental officials have been appointed as Directors to progress the wind up of the company and conclusion of all final tax and accounting matters. Wind up should be concluded in 2018-19.

- **North/South Language Body** – in the Good Friday Agreement, it was stated that a North/South Implementation body be set up to promote both the Irish Language (Foras na Gaelige) and Ulster Scots language (Ulster Scots Agency).

  Each of these agencies has its own board whose members together constitute the Board of the North/South Language Body.

Foras na Gaeilge

Foras na Gaeilge carries out all the designated responsibilities regarding the Irish Language. This entails facilitating and encouraging the speaking and writing of Irish in the public and private arena in the Republic of Ireland, and in Northern Ireland where there is appropriate demand, in the context of part three of the European Charter for Regional and Minority Languages.

The staff of Bord na Gaeilge, An Gúm (Publishers) and An Coiste Téamaiochta (Terminology Committee) and their activities have all been transferred to the new body. Foras na Gaeilge is proud of its role in advising north and south of the border, as well as public bodies and other groups in the private and voluntary sectors in all matters relating to the Irish Language, as well as the supportive projects it undertakes with grant-aiding bodies and groups throughout the island of Ireland.

Ulster Scots Agency

The Ulster Scots Agency or Tha Boord O Ulster Scotch has been given the legislative remit of the promotion of greater awareness and use of Ulster-Scots, both within Northern Ireland and throughout the Island. The aims of the Ulster Scots Agency are:

- to promote the study, conservation, development and use of Ulster-Scots as a living language
- to encourage and develop the full range of its attendant culture
- to promote an understanding of the history of the Ulster-Scots

The Agency is jointly funded by the Department for Communities in Northern Ireland and the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs in the Republic of Ireland and is responsible to the North/South Ministerial Council. The Agency has its main office in Belfast with a regional office in Raphoe, Co Donegal.

Public Bodies Within our Accounting Boundary

DfC Advisory Non-Departmental Public Bodies

- The **Historic Buildings Council** was established in 1974 under the provisions of the Planning (Northern Ireland) Orders of 1972 updated most recently by the Planning Act (NI) 2011. The Council is made up of 15 members with a wide range of expertise and experience in architecture, architectural history, planning, industrial heritage, building conservation and structural engineering throughout Northern Ireland. Its role is to advise the Department on the listing and delisting of buildings, listed building consent, buildings preservation notices (spot listing), urgent works to preserve buildings, conservation areas and matters of the industrial and defence heritage.

- The **Historic Monuments Council (HMC)** was first established in 1971 under the provisions of the Historic Monuments (Northern Ireland) Act 1971. Its current authority is derived from the Historic Monuments and Archaeological Objects (Northern Ireland) Order 1995 (the Order). The Council is made up of 15 members with a wide range of experience and expertise in matters concerning historic monuments and cultural heritage. The role of HMC is to advise the Department on, among other things, the management of monuments in state care, maritime archaeology, industrial and defence heritage and areas of significant archaeological interest within development plans.

Independent Statutory Officeholder

The Office of the Discretionary Support Commissioner delivers independent reviews of decisions made on Discretionary Support Loans and grants. It came into operation in November 2016, replacing the Office of the Social Fund Commissioner when elements of the Social Fund ceased.

Key Risks

DfC had a robust risk management process in place to ensure that the risks faced by the Department are identified, managed and that appropriate controls were in existence and utilised accordingly. At the beginning of 2017-18 the Departmental Management Board (DMB) conducted an end of year review of its Corporate Risk Register for 2016-17, alongside the Department’s Balanced Scorecard for 2016–17, and agreed the key corporate risks for 2017–18. Key risks to the Department achieving its objectives are outlined in the Governance Statement. Details of our corporate governance and risk management arrangements are also included in the Governance Statement.

Key issues faced during 2017-18

During 2017-18 the Department managed a number of significant issues. Further details on the issues faced and the actions taken can be found within the Governance Statement.

Anti-corruption and anti-bribery matters

The Department continues to strengthen its anti-corruption and anti-bribery arrangements through the sharing of best practice with Departmental staff and ALBs. The recent NIAO Good Practice Guide on this issue was also considered in year by the Departmental Audit and Risk Assurance Committee.

Section 2 – Performance Analysis

The Departmental Management Board (DMB) supports the Accounting Officer in his oversight of the delivery of the business plan.

Despite challenging conditions the Department has made good progress against the 49 milestones and targets contained in the 2017–18 Business Plan.

A total of 22 (45%) of the milestones/targets for 2017-18 have been achieved. Progress for 16 milestones (33%) was less than planned and 11 milestones (22%) have not been achieved.

Our Detailed Financial Results for the Year

Departmental Resource Accounts form the principal financial reports of the Department and are published on an annual basis.

Supply estimates are the means by which parliamentary (Assembly) authority is secured for most government expenditure.

Supply is granted on an annual basis, voted in the Main and Spring Supplementary Estimates and in the Budget Acts in NI.

The net resource outturn of the Department in 2017-18 was £4.226 billion. The financial results of the Department are set out on pages 79 to 161.

The outturn was £170 million less than the Estimate. This can be explained as follows:

The **DEL** outturn is £26.999 million (4.1%) less than the Estimate. It is important to highlight that the vast majority of easements are demand led and/or outside the control of the Department. Some of the significant variances are due to contract easements as a result of fluctuations in volumes, Fresh Start mitigations and Housing Benefit rates expenditure being less than expected.

The **AME** outturn is £116.378 million (3.6%) less than the Estimate due to the nature of this spend being demand led and difficult to predict.

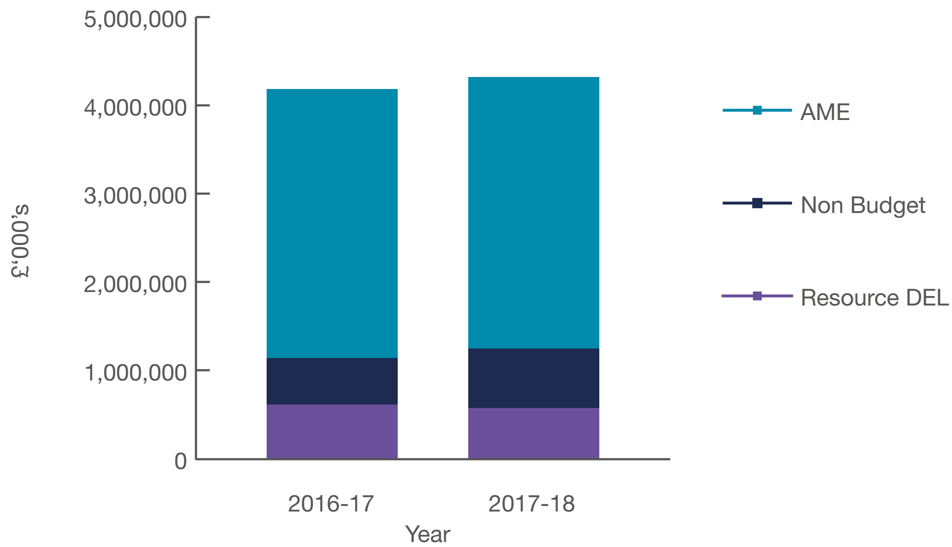
The **Non-budget** outturn is £27.102 million (4.9%) less than the Estimate mainly due to Social Fund Cold weather payments not being triggered and timing in relation to cash drawdowns.

Note SoAS 1 within the Assembly Accountability and Audit Report provides more detail.

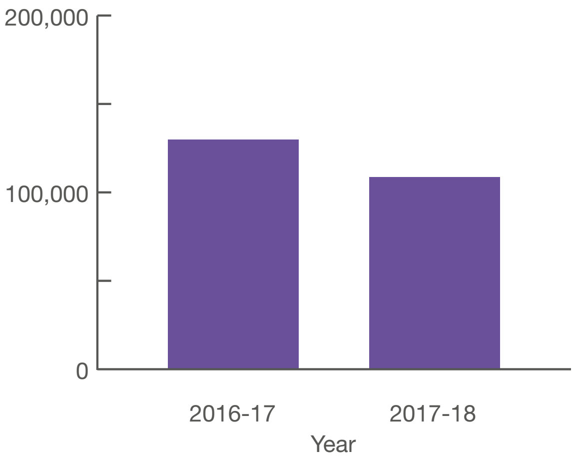
Long-term Expenditure Trends – 2 years data

The graph below shows the trends in departmental expenditure. As the Department for Communities was only formed at the beginning of the 2016-17 year only 2 years comparative information is available. There is no significant difference year-on-year.

Breakdown of Total Departmental Expenditure



Total Departmental Capital Expenditure



Fixed Assets

Details of movements in fixed assets are set out in **Notes 6-8**.

Contingent liabilities are not required to be disclosed under IAS 37 but are included for parliamentary reporting accountability. Contingent liabilities in this context are included in **Note 18** in the main body of the accounts.

Going Concern

In common with other government departments, the future financing of liabilities will be met by future grants of Supply and the application of future income, both to be approved annually. There is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Departmental Performance

Strategic Priorities and Objectives

The DfC Business Plan for 2017-18 identified ten strategic priorities and objectives for the Department in delivering its services for the public. These services impact upon almost every person in Northern Ireland. The services delivered by the Department, and the funding it provides to arm's length bodies, has led to many positive impacts for the population across Northern Ireland. These have been achieved against a backdrop of challenging budgetary conditions.

The services provided and the actions taken to meet these priorities are listed below:

1. **Decent, affordable, sustainable homes and housing support services**
   The Department has responsibility for the provision of good quality housing and demand for social housing continues to be high with waiting lists of around 37,500. We have continued to work towards reducing this by delivering 1,759 new social homes, exceeding last year's 1,600 homes. Through our Co-ownership Scheme we delivered 803 additional affordable homes, more than 100 homes over target.

   Energy efficiency continues to be a Departmental priority. It helps deliver long term health, economic and environmental outcomes. In 2017-18, £20.2 million was provided through the Affordable Warmth and Boiler Replacement Schemes improving energy efficiency in just over 6,500 homes. Sustainable buildings have a positive impact on the natural environment as well as improving wellbeing and comfort for residents.

   We are committed to helping those on the margins of society to reintegrate. The Department has developed a Homelessness Action Plan, published in November 2017 in partnership with other Government Departments to address the broader issues related to homelessness.

   The Supporting People programme continued to assist more than 19,000 vulnerable householders in 2017-18 to live independently. In addition £13 million was provided in grants to improve homes including disabled adaptations for owner occupiers and those in private rented accommodation.

   The Department also provides grant funding (£855k in 2017-2018) to Housing Rights Service to provide free, independent advice to people experiencing difficulty with housing and mortgage debt issues; and to help prevent homelessness in Northern Ireland.

2. **A social welfare system including focused support to the most disadvantaged areas**
   In 2017-18, DfC managed a social welfare budget of over £5 billion ensuring public funds are utilised efficiently. Reducing fraud and error within the benefit system, including Housing Benefit, remains a key focus and in 2017, overpayments stood at 1.5%, while underpayments were 0.5%.

   We met high targets in processing requests for benefits. The State Pension claim clearance achievement in 2017-18 was 98.03% cleared on or before the due date, against a target of 95%. Housing benefit, aimed at helping people on low income with housing costs, had an average turnaround time for applications of 17 days.

The average clearance time for Jobseekers Allowance applications was just over 10.3 days, Employment Support Applications 15.1 days and Income Support 10.9 days.

The Department undertook a significant work programme to roll out Universal Credit across Northern Ireland. It aims to introduce greater fairness to the welfare system and was introduced on 27 September 2017 with new claimants within the Limavady office post code area being the first to claim. The Foyle Service Centre was also established on 27 September 2017 and the benefit has now gone live in 14 locations across Northern Ireland.

It is a payment for people over 18 but under State Pension age, who are on low income or out of work. It includes support for the cost of housing, children and childcare, and financial support for people with disabilities, carers and people too ill to work.

3. **Support for jobseekers and employers**
Helping those seeking work and supporting employers is a key priority if we are to build a solid economic future for Northern Ireland. This Department provides advice, training and support to job seekers through our local offices.

The Department spends circa £25 million a year on Work and Wellbeing Programmes designed to help unemployed and economically inactive people to find work or to remain in work. Whilst poverty is a multidimensional issue, assisting those that can move towards the labour market to find and retain good work, is the most sustainable response to poverty.

The main work and wellbeing programmes delivered by the Department in 2017-18 were:

- Steps 2 Success – we spent £8.2 million to help 7,580 benefit recipients find and sustain work thereby supporting the needs of employers and the economy
- Workable NI – we spent £4.1 million through our disability employment programme supporting 993 people enabling them to find and stay in work
- Condition Management Programme – we spent £2.5 million on our focussed rehabilitation programme which utilises health professional expertise and support to help the individual client to progress towards, move into or return to paid employment
- Access to Work – we spent £2.1 million supporting 745 people with a disability or health condition providing assistance with travel to and from work, the provision of a support worker, provision of equipment and adaptations to premises
- £1.6 million was spent on providing public match funding to 17 European Social Fund disability employment projects across Northern Ireland. These projects were designed to help reduce economic inactivity; increase employment opportunities in our most deprived communities; reduce underemployment; and increase quality of life for people with disabilities by helping individuals find work

4. **Bringing divided communities together**
This Department recognises the need to tackle the blights of sectarianism, racism and other forms of intolerance. One of the ways we are helping to address this is through supporting people to improve communities and tackle disadvantage. To date, five shared neighbourhoods have

completed: Ballynafoy Close and Global Crescent in Belfast, Burnvale Crescent in Cookstown, Manse Court in Crossgar, and Felden in Newtownabbey.

Together with local government we have taken steps to further progress major regeneration schemes aimed at delivering vibrant, attractive environments for our communities. These include:

- St Patrick's Barracks, Ballymena - a development plan has been completed and demolition of buildings on site has commenced. Consultants have been appointed to design the access road for the site
- Queens Parade, Bangor - a preferred developer was identified and negotiations on a development agreement to take forward and deliver this scheme are ongoing
- Progression of regeneration plans for Portrush in advance of the 2019 Open Golf Championship
- Clondermot site, Londonderry - a Peace IV application has been submitted for the creation of The Waterside Shared Village on the site. Bringing two interface communities together, this shared space will incorporate a central community hub building, surrounded by a sports complex and act as an exemplar of good relations and peace and reconciliation development
- Fort George, Londonderry - a contractor has been appointed to remediate the site with work completed by December 2018 as well as property consultants to carry out the preparatory work to seek expressions of interest in the site by late autumn
- Revised concepts for the development of Queen's Quay and Gateway Site North Street Belfast

We invested almost £8 million to improve the environments in several towns and cities across Northern Ireland, including Belfast, Ballymena, Bangor, Limavady, Strabane and Londonderry, to maximise opportunities for investment. In delivering these we aim to achieve the highest standards in sustainability.

5. Supporting Local Government

This Department is responsible for setting the policy and legislation framework under which Northern Ireland's 11 district councils operate and provide services. We are also responsible for setting the governance and accountability framework for councils and we haveconsulted on a revised draft Code of Conduct for councillors.

We play a key role in supporting district councils in the development of their community plans aligned with programme for government outcomes. To this end, we have drafted community planning, monitoring and reporting guidance to assist local councils and their partners, which will be aligned with the associated Programme for Government guidance.

The Department continues to work with Central and Local Government by liaising with SOLACE (Society of Local Authority Chief Executives) to support the needs of local people.

6. Maximising public benefits from the culture, arts and leisure sectors

The culture, arts and leisure sectors play an important part in promoting cohesive communities to help the achievement of positive health and socio-economic outcomes.

In 2017-18, the Department provided over £12 million to the Arts Council and Northern Ireland Screen to deliver support and development for the arts and screen sector.

The Department continued its partnership with district councils to provide funding for the Community Festivals' Fund, supporting community led cultural festivals across Northern Ireland.

Throughout 2017-18, the Ulster Council Gaelic Athletic Association project team has continued their engagement with the Department for Infrastructure in their consideration of the Planning Application for the redevelopment of the Casement Park Stadium.

The Sub Regional Stadia Programme maintained its engagement with the IFA to consider the next steps in developing the programme allocations, in anticipation of the return of Ministers.

7. **Tackling disadvantage and promoting equality of opportunity**
   Work has continued on the development of a draft Social Strategy aimed at promoting opportunity for everyone and to tackle poverty, social exclusion and patterns of deprivation based on objective need. Whilst not approved yet for formal consultation, the focus is on delivery of better outcomes for people.

   In parallel with the development of the Social Strategy, we developed an inter-departmental delivery plan to deliver better outcomes for people by supporting those in greatest need and promoting opportunities for everyone to fulfil their potential.
   We continue to implement the actions of the Executive's Active Ageing and Child Poverty strategies. We laid the 2017-18 annual report on child poverty in the Assembly in March 2018.

   We worked in collaboration with Derry City & Strabane District Council and the Public Health Agency to deliver an access programme for cultural venues. The aim of this programme was to promote a more inclusive society allowing all residents and visitors from the pan disability community to avail of opportunities to participate in arts and culture activities.

   Working with the Government Equalities Office (GEO), we contributed to the UK's response to the 8th Periodic Report of the Convention of the Elimination of Discrimination against Women (CEDAW) in October 2017.

   On behalf of the Northern Ireland Civil Service, we contributed to the 1st Annual Report to Parliament on the Council of Europe Convention on Preventing and Combating Violence Against Women and Domestic Violence (the 'Istanbul Convention'). This was formally laid in the UK Parliament on 1 November 2017.

8. **Promoting the financial responsibility parents have for their children**
   In 2017-18, Child Maintenance Service (CMS) supported 13,733 children across Northern Ireland through the administration of £17.2 million in child support payments from paying parents to receiving parents. Before applying, parents are encouraged to consider a family-based arrangement and CMS supported 29 additional families in making this arrangement.

CMS employs over 850 staff in Belfast on behalf of the Department for Work & Pensions (DWP). Internal metrics measuring its performance continue to rate it as one of the best performing regions in the United Kingdom.

9. **Funding programmes that help community and voluntary organisations make a difference**
   The Department has lead responsibility for the voluntary and community sector. In 2017–18, we provided in the region of £36 million supporting a range of objectives to make a real difference in the lives of the population.

   £1.8 million was provided through the Regional Infrastructure Support Programme to ensure the voluntary and community sector has access to the support it needs to function effectively and efficiently. As well as generic support, funding was provided for volunteering, women in disadvantaged areas and faith based engagement.

   We provided £2.9 million to enable access to independent generalist advice services and a further £2.7 million to support citizens through the introduction of the Welfare Reforms.

   A contract for £750,000 over two years was awarded to the Women's Intervention Partnership. This is to deliver the Women In Community Transformation programme under our Fresh Start Agreement obligation (B5) of the Executive Action Plan. This programme has been developed to increase the participation and influence of women in community development. A phase 1 training programme was delivered to over 500 women across 26 locations.

   We supported projects through the Executive's Together: Building a United Community Strategic Interventions programme, now rebranded Uniting Opportunities. In 2017-18, this programme awarded a total of £222k delivering projects specifically targeted at those young people who had more complex barriers to engagement in their local community and, consequently, on the Uniting Communities Programme.

10. **Protecting our historic environment**
    We lead work across the historic environment sector. This year, under the draft Programme for Government, we explored links that can be made with other areas of Northern Ireland government to deliver outcomes to help change people's lives, and to help other Departments in the work they do.

    2018 is the European Year of Cultural Heritage (EYCH). We have worked with Heritage Lottery Fund (HLF), Tourism NI, Arts Council NI and others to develop a programme for the year which will stimulate our heritage offerings to support communities, visitors and the economy. The Department contributed to a £500k HLF-led grant scheme to showcase EYCH.

    We financially supported a range of evidence-gathering work including heritage skills, audits of heritage assets and their impact in different areas, and heritage at risk.

    Recognising the value of our heritage sites, we have undertaken a range of maintenance works at sites including Dundrum Castle, Kirkistown Castle and Ballycopeland Windmill. Planning permission was gained to provide a new roof on the Great Keep at Carrickfergus Castle.

We ran a successful programme of events utilising state care monuments including a Wizarding Weekend at Carrickfergus Castle, and had close engagement with PRONI and National Museums regarding displays at some of the monuments.

We provided £300,000 of support to repair schemes under the Historic Environment Fund and have worked to use the benefits to heritage to support key Departmental work activity. This includes encouraging volunteering and reducing economic inactivity, responding as a statutory consultee to planning authorities on 2,801 planning applications and providing comments on Local Development Plans.

Other Key Highlights:

During the year DfC also had a significant number of other key achievements. These included:

- Opening of Dungiven Sports Centre and the Riada 3G Pitch in Ballymoney developed in partnership with Causeway Coast and Glens District Council.
- Through its Neighbourhood Renewal and Areas at Risk programme, the Department invested £3 million capital and £21 million across 312 projects providing services to the most deprived areas across Northern Ireland.
- The second survey of buildings of special architectural and historic interest continued.
- We took 13 Urban Development Grant projects in Portrush to full appraisal in advance of the 2019 Open Golf. Contracts were issued to three projects in 2017-18 awarding almost £1 million.
- We provided funding through Urban Development Grants and committed £0.475 million to a 3-star hotel project in Londonderry. A further 17 projects advanced from the first stage of assessment and are being considered for funding.
- We delivered the Uniting Communities cross-community youth sports programmes across Northern Ireland under the banner of the Together: Building a United Community (T:BUC) strategy. In the Colin and Eastside areas of Belfast and the Erne East area of Co. Fermanagh, we supported youth leaders in designing and delivering an action plan for their area, engaging approximately 470 young people aged between 11–16 years in a series of workshops using sport, physical and creative activity to improve good relations at a grass roots level.
- In excess of 90% of deaf children are born to hearing parents with little or no knowledge or expertise in sign language resulting in lack of opportunities to develop the literacy and numeracy skills necessary to shape their future academic achievements and employment prospects. To address this, through Languages Branch, the Department provided various Family Sign Language courses equipping parents as their ‘first teacher’ and family members with greater sign language skills. To encourage Deaf–friendly learning environment for Deaf pupils, the Department funded delivery of Deaf Awareness and basic sign language classes to 40 schools across Northern Ireland. Various adult awareness courses in both British Sign Language and Irish Sign Language were also funded.
- As part of the Centenary of the Representation of the People Act 1918, the Department organised a year-long programme of events in order to identify

barriers and encourage women to enter into public and political life. The aim of the Centenary was to:

- mark the centenary
- educate young people on its significance
- build a legacy for the future by encouraging young women into political and public life

Environmental and Sustainability Commitments

The Department has taken a number of measures to reduce the carbon footprint of its buildings. The Department is a participant in the Carbon Reduction Commitment (CRC) Scheme, a mandatory Scheme that aims to improve energy efficiency and reduce the amount of carbon dioxide (CO_2) emitted in the UK. Departmental Premises Officers in larger buildings have access to a building energy management interface to provide direct access to temperature variables and overtime settings. This provides a facility for Premises Officers to fine tune temperature settings in order to reduce energy consumption and reduce Helpdesk calls.

The Department is committed to reducing waste and has well established recycling services in all its buildings.

Rural Needs Act (NI) 2016

All Northern Ireland Departments are responsible for ensuring that they fulfil duties under the Rural Needs Act (Northern Ireland) 2016. Section 1 of the Act places a statutory responsibility on public authorities to have due regard for rural needs when developing, adopting, implementing or revising policies, strategies and plans.

In 2017-18 the Department considered 30 policies to ensure there were no potential negative impacts on rural areas. For 28 policies no differential impact between rural and urban environments was found. Mitigating steps were put in place for the two policies listed overleaf:

Description of the activity undertaken by the public authority which is subject to section 1(1) of the Rural Needs Act (NI) 2016.	The rural policy area(s) which the activity relates to.	How due regard to rural needs has been given when developing, adopting, implementing or revising the policy, strategy or plan or when designing or delivering the public service.
Programme for Women Involved in Community Transformation	Education/ training in rural areas Infrastructure in rural areas	Programme model modified to take account of feedback received through stakeholder engagement events.
	Rural crime or community safety	Additional areas included in stakeholder engagement programme Additional delivery location (Fermanagh) included in the programme delivery schedule.
Universal Credit - Revised Transition Plan	Poverty	Account taken of poor broadband availability, transportation links and service delivery hours in rural areas. Digital service supported with extended opening hours for face-to- face services at 38 Jobs and Benefits Offices across Northern Ireland; provision of digital zones and free Wi-Fi; trained staff on site to assist claimants; extended Universal Credit telephony service from 8am to 6pm, Monday to Friday.

Complaints Handling

The Department is committed to a consistent approach to complaints handling. It helps ensure customers are provided with a good standard of care and that internal control mechanisms are effective and impartial.

The Department aims to answer all complaints within 10 working days. There are two separate approaches for handling complaints within the Department.

The first approach is for complaints that do not normally involve services provided to individual customers. The Department operates a two stage process for dealing with these complaints. Stage 1 complaints are signed off by the relevant business area Grade 7. Stage 2 complaints are signed off by the Grade 5 or Grade 6.

The second approach is for complaints involving services provided to individual customers. The Department operates a three stage process for dealing with these complaints. Stage 1 complaints are signed off by the relevant business area manager at Staff Officer level. Stage 2 complaints are signed off by the relevant business area Grade 7 and stage 3 complaints are signed off by a Grade 5, Grade 7 or Deputy Secretary.

During 2017–18, the Department received a total of 1,146 complaints. If a complaint is upheld, lessons learned are shared across business areas contributing to improvements in meeting our customer needs.

The Departmental customer complaints policy can be found at **www.communities-ni.gov.uk/dfc-complaints-procedure.**

Conclusion

In times of increased financial and political pressures, the Department has continued to deliver a first class service that impacts upon the lives of many people across Northern Ireland.

Leo O'Reilly

LEO O'REILLY
ACCOUNTING OFFICER
25 June 2018

Accountability Report

The purpose of the accountability section of the annual report is to meet key accountability requirements to the Assembly. The requirements of the accountability report are based on the matters required to be dealt with in a Directors' Report, as set out in Chapter 5 of Part 15 of the Companies Act 2006 and Schedule 7 of SI 2008 No 410 and in a Remuneration Report, as set out in Chapter 6 of the Companies Act 2006 and SI 2013 No. 1981. The requirements of the Companies Act are adapted for the public sector.

The Accountability Report therefore comprises:

a) the Corporate Governance Report (consisting of the Directors' report, Statement of Accounting Officer's Responsibilities and Governance Statement

b) the Remuneration and Staff Report

c) the Assembly Accountability and Audit Report (which includes the Statement of Assembly Supply and supporting notes and disclosures relating to regularity of expenditure, losses and special payments, remote contingent liabilities and long-term expenditure trends)

Corporate Governance Report

This sets out the management arrangements for the Department and the areas which have been of concern throughout the year along with any mitigating actions taken.

Directors' Report

Management of the Department Our Minister and Senior Officials

The Northern Ireland Assembly was dissolved on 26 January 2017, with an election taking place on 2 March 2017, on which date Ministers ceased to hold office. An Executive was not formed following the 2 March 2017 election. As a consequence, the Department operated throughout 2017-18 without a Minister.

The Permanent Secretary, Leo O'Reilly, is the Department's most senior official. He chairs the Departmental Management Board (DMB) which comprises the senior officials in charge of each business area and two non-executive members.

Details of the composition of DMB during the reporting period can be found at page 30 in the Governance Statement.

Appointment of the Permanent Secretary and Members of the Management Board

The Permanent Secretary is appointed by the Civil Service Commission under the terms of Article 6 of the Civil Service Commission (NI) Order 1999.

Appointments to executive DMB positions are determined in accordance with NICS promotion and appointment procedures.

Non–Executive Board Members (NEBM's) are appointed by the Accounting Officer, following open competition.

A Non–Executive Member of the Management Board chaired the Departmental Audit and Risk Assurance Committee (DARAC) and the Universal Credit Programme Board (UCPB).

Conflicts of Interest

A Register of Board Interests is maintained by the Department. No significant interests are currently held by Board members which may conflict with their management responsibilities.

Data Protection Arrangements

The Department places considerable emphasis on protective security. All major security incidents are fully investigated to see if the lessons can be learned and existing controls improved. During the last financial year one major incident involving an Appeals Tribunal Panel Member losing a set of Appeals Papers was referred to the Information Commissioners Office. There were four further incidents involving Royal Mail losing information in the postal system which did not require reporting to ICO.

Statement of Accounting Officer's Responsibilities

Under the Government Resource and Accounts Act (NI) 2001, the Department of Finance (DoF) has directed the Department for Communities (DfC) to prepare for each financial year resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year.

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

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

- observe the Accounts Direction issued by DoF, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going concern basis.

DoF has appointed the Permanent Secretary as Accounting Officer of the Department and also for the Child Maintenance Service Client Funds. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances under his/her stewardship, for keeping proper records and for safeguarding assets of the Department, are set out in Managing Public Money Northern Ireland (MPMNI) published by DoF.

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

He also confirms that the annual report and accounts as a whole are fair, balanced and understandable and takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

Governance Statement

1. Introduction

The Governance Statement for DfC has been compiled from work throughout the year to support stewardship, management and control of the Department. It supplements the annual accounts and explains the framework of governance and risk management operated in support of my role as Departmental Accounting Officer.

2. DfC Governance Framework

2.1 Overview of Arrangements

DfC has a corporate governance framework which specifies organisation and governance structures; roles and responsibilities of those charged with governance; and key internal control, risk management and assurance arrangements. The framework is in line with the 'Corporate Governance in Central Government Departments: Code of Good Practice NI 2013' and is available at **www.communities-ni.gov.uk/publications/dfc-corporate-governance- framework**

The Department operates under the direction and control of the Minister for Communities. The Minister is responsible and accountable to the Assembly for the policies, programmes and actions of the Department. As Permanent Secretary for DfC, I am the Minister's principal adviser, as well as the administrative head of the Department and the Departmental Accounting Officer.

The NI Assembly was dissolved from 26 January 2017 with an election taking place on 2 March 2017, on which date Ministers ceased to hold office. An Executive was not formed following this election. As a consequence there has been no Minister for Communities during 2017-18.

I am required to disclose where I, as Accounting Officer, have sought formal Ministerial Direction to proceed where I believe I am being asked to take a course of action that could potentially result in irregular expenditure, impropriety or poor value for money. I can confirm that in the absence of a Minister for Communities no such direction was sought or given.

As Accounting Officer I am personally responsible and accountable for the effective management and organisation of the Department, the efficient and effective use of its resources and the stewardship of its assets. I am assisted in my role as Accounting Officer by a Departmental Management Board (DMB) which encompasses DfC Deputy Secretaries along with Non-Executive Board Members operating as a collegiate committee under my leadership.

The Board is supported in its role by a Departmental Audit and Risk Assurance Committee (DARAC) and an Information Assurance Committee (DIAC). The Department's governance framework and committee structure is outlined on pages 28 & 29. This shows the coverage of work and the highlights of Committee reports to the Board. Board and DARAC attendance records are provided on pages 30 & 31.

2.2 Board Performance and Effectiveness

Minutes of Board meetings are available at **www.communities-ni.gov.uk/publications/departmental-management-board-minutes**

A Register of Board Interests is maintained and 'Conflicts of Interest' is a standing agenda item for Board meetings where members are asked to declare any interests relating to items on the Board agenda.

Evaluation of Board effectiveness was undertaken following the end of 2017-18 in accordance with the Corporate Governance Code and the Board's Operating Framework. The Board Effectiveness review encompassed: Performance Management, Control and Risk; Information, and Culture. It included assessment of the quality of information used by the Board and identification of areas for improvement.

The 2017-18 effectiveness review confirmed Board oversight of the important issues facing the Department, the quality of information available to the Board and Board compliance with the Corporate Governance Code.

2.3 DARAC Review of Effectiveness

DARAC also undertook a review of effectiveness at the end of 2017-18 in line with recommended best practice. The review was undertaken using the NAO Audit and Risk Assurance Committee Effectiveness Checklist. This confirmed DARAC's compliance with good practice and the strength of the DfC committee arrangements.

3. Risk Management Arrangements

3.1 Overview

DfC's Risk Management Framework forms part of its corporate governance system and facilitates compliance with the Corporate Governance Code. The Framework is outlined on page 32.

The Board considers its Risk Appetite against a range of risk categories on an annual basis. This allows Risk Owners to establish controls and manage risks in line with Board expectations. The Board agrees the risks to be included in the Department's Corporate Risk Register and assigns ownership for each corporate risk. The Corporate Risk Register is presented at each Board meeting and reviewed in detail on a quarterly basis.

Risk Appetite and the areas of risk managed through the Corporate Risk Register during 2017-18 are set out on page 33.

Assurance Framework

Part of the Department's Risk Management process is an agreed Assurance Framework. This includes provision of quarterly Assurance Statements by Deputy Secretaries on their risk management processes and internal control arrangements. Deputy Secretaries use their Assurance Statements to identify any exceptions/material concerns within their Groups or the Arm's Length Bodies (ALBs) for which they are responsible.

Sponsorship arrangements are in place for each of the Department's ALBs. These arrangements, together with the ALB Assurance process, inform and support Deputy Secretary Assurance Statements.

This integrated assurance process informs the work of the Department's Governance Unit and supports the reporting process for DARAC.

3.3 Fraud and Whistleblowing Arrangements
The Department's Fraud Policy details responsibilities regarding the prevention of fraud, bribery or serious irregularity within the Department and its ALBs. The procedures to be followed in the event of any fraud being detected or suspected are detailed in the supporting Departmental Fraud Response Plan. Cases under enquiry or investigation are reported to DARAC and the Board on a quarterly basis.

The Department's Raising Concerns (Whistleblowing) guidance and procedures explain how workers can raise concerns about potential wrongdoing and how anyone who is not a member of staff can raise concerns about the proper conduct of public business by the Department or its sponsored bodies. DARAC and the Board are updated on Raising Concerns (whistleblowing) on a quarterly basis.

3.4 Head of Internal Audit Opinion
The Head of Internal Audit (HIA) provides an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the Department's framework of governance, risk management and control. For 2017-18, the HIA provided an overall satisfactory opinion on the Department's arrangements.

Progress against the Annual Internal Audit Plan is monitored by DARAC and an audit database is used to monitor the implementation of outstanding internal audit recommendations where a limited or unacceptable opinion has been reported. Details of limited opinion reports are included in section 3.6 of the Governance Statement. The HIA provides an overall opinion based on work undertaken during the year. The HIA opinion for 2017–18 is '**Satisfactory**'.

3.5 Other Assurances
In addition to assurances received from my Deputy Secretaries and HIA, I receive an annual and mid-year inter-departmental report from the DoF Accounting Officer on services provided to NICS Departments by DoF. The DoF Accounting Officer has advised me that her HIA has provided a satisfactory audit opinion on shared services overall.

The DoF Accounting Officer also provides an annual Assurance Statement in respect of the administration of housing benefit rates rebates for owner occupiers. Assurance has been provided for 2017-18 on controls in place to ensure that the administration of housing benefit rates rebates for owner occupiers is efficient and effective.

DfC relies on DWP computer systems, services and underpinning commercial arrangements to calculate and deliver the majority of benefits. The DWP Accounting Officer provides his assessment of DWP Systems of Control and Significant Control Issues in the DWP Annual Report and Accounts. This includes assessments on "Keeping Our Systems and Data Safe" and "Maintaining IT Services While Effecting Digital Transformation". DfC places reliance on these assessments and on UK wide arrangements for cyber security operated through the National Cyber Security Centre and the DWP Cyber Resilience Centre.

DfC Governance Structure & Board Arrangements

Leo O'Reilly
Permanent Secretary and Accounting Officer for DfC.

Departmental Management Board (The Board)

The Board assists the Permanent Secretary, as Accounting Officer, in meeting the governance requirements for the Department. Responsibilities include the provision of advice on a number of matters which are reserved to the Board. These are set out in the Board's Operating Framework, agreed annually and assigned to specific Board meetings through the year.

Throughout 2017-18 the Board received regular assurance updates from DARAC and DIAC. It also scrutinised a range of issues including a regular stewardship report encompassing key financial, budgetary and HR data along with regular review and oversight of corporate risks, associated outputs and action plans.

Departmental Audit and Risk Assurance Committee (DARAC)

DARAC is a committee of the Board, independent of the Department's executive structure and with no executive powers. Its role is to support the Board on issues of Risk, Control and Governance through reviewing the comprehensiveness, reliability and integrity of the Department's Assurance Processes. The terms of reference for DARAC are agreed by the Board in line with the Audit & Risk Assurance Committee Handbook.

The committee is chaired by a Non Executive Board Member (NEBM) and membership is made up entirely of NEBMs and members independent of the Department's executive structure. In addition to quarterly committee meetings the Committee convenes Audit Focus Sessions where committee members are provided with more detailed presentations on selected topics to enhance the level of assurance provided to the board and Accounting Officer.

Areas of Audit Focus in respect of 2017-18:

- Sponsorship of the Northern Ireland Housing Executive
- Cyber Threats and DfC Databases / Systems
- Interim and Final Accounts
- Welfare Reform changes – impact on Financial Accuracy
- Welfare Reform Mitigations
- Assurance Mapping

Departmental Information Assurance Committee (DIAC)

DIAC is a committee of the Board whose role is to ensure that the Department has appropriate policies, management and governance systems to effectively protect the considerable volume of information, held by the Department. DIAC assists the Board and Accounting Officer with responsibilities relating to the use, processing, storage, sharing and transmission of information or data and the systems and processes used for those purposes.

DIAC is chaired by the Departmental SIRO supported by the Departmental Security Officer, the Departmental Information Officer; the IT Security Officer; the Departmental Accreditor; Head of Analytical Services; the Head of Internal Audit and relevant Information Assurance Officers.

Areas of Focus During 2017-18:

- Cyber Security
- EU GDPR Preparedness
- Information Assurance (encompassing physical, personnel and information security; information Management; IT Security; Information Systems Security and Accreditation)
- Information Risk Management

DMB Attendance Record 11 Board Meetings held during 2017-18	
Board Members	**Meetings Attended**
Leo O'Reilly (Chair) Permanent Secretary	11
Jackie Kerr Deputy Secretary	10
Tommy O'Reilly Deputy Secretary to 12 April 2017	1
Ian Maye Deputy Secretary to 21 June 2017	2
Denis McMahon Deputy Secretary to 14 February 2018	9
Louise Warde Hunter Deputy Secretary from May 2017	9
Ian Snowden Deputy Secretary from 8 November 2017	5
David Malcom Deputy Secretary from 14 March 2018	1
Non–Executive Board Members (NEBM's)	
John West NEBM / DARAC Chair	11
Duncan McCausland NEBM / DARAC Deputy Chair from 1 September 2017	7

The Directors of Financial Management, Asset Management & Governance and Corporate Services attend Board meetings. The NICS HR Business Partner for DfC also attends.

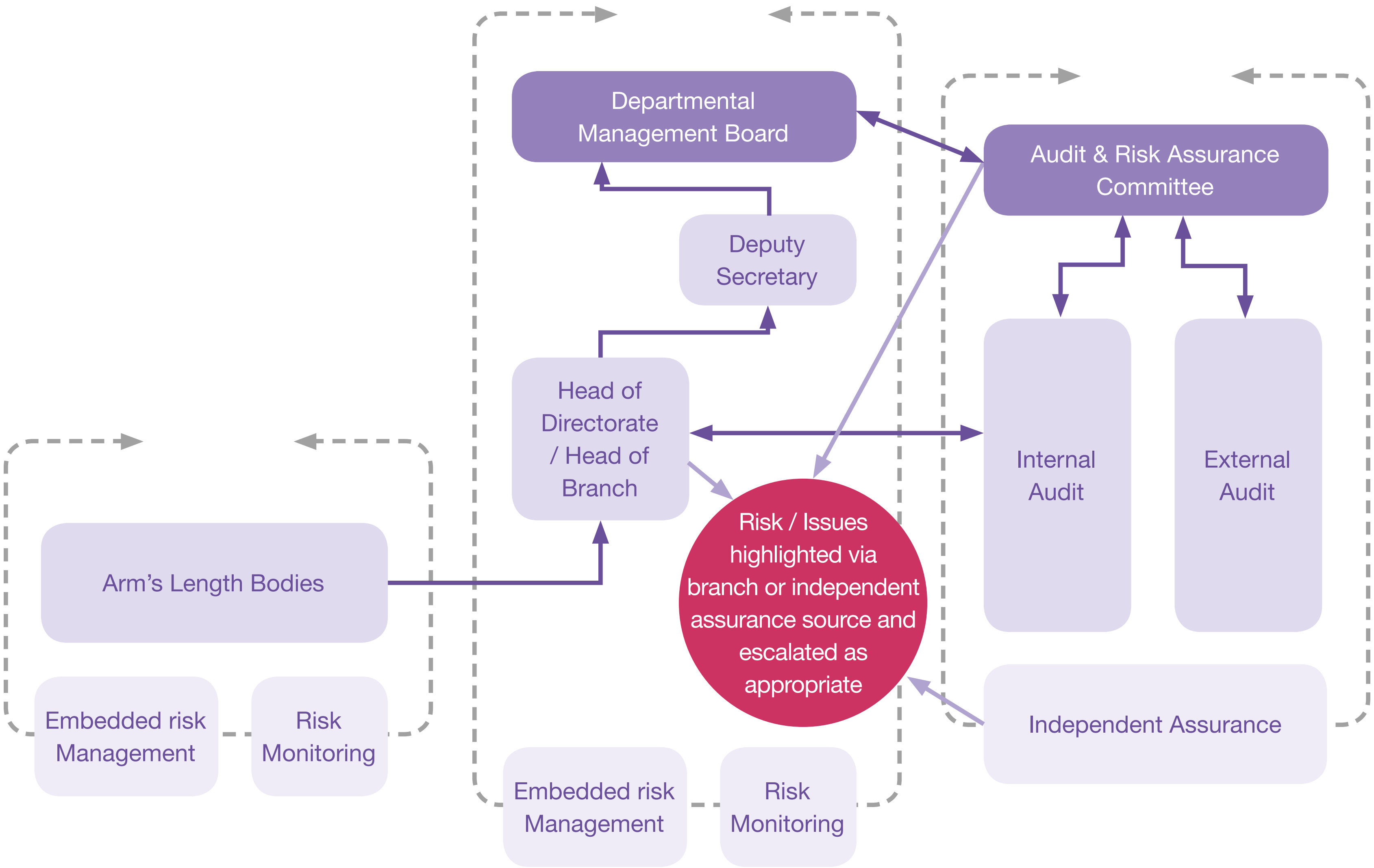
DARAC Attendance Record

4 meetings held during 2017-18. Quorum for meeting – 3 members

Non-Executive Board Members	Meetings Attended
John West DARAC Chair	4
Duncan McCausland NEBM / Deputy Chair from 1 September 2017	3
Independent Members	
Patrick Anderson	4
Michael Donnelly	4
Caroline Gillan Independent Member from 1 October 2017	3
Julie Thompson Independent Member until September 2017	1

The Strategic Planning and Resources (SPRG) Deputy Secretary, the Director of Financial Management, the Director of Asset Management & Governance and the Head of Governance attend DARAC meetings along with the Departmental Accounting Officer, the Head of Internal Audit and the NIAO.

Risk Management Framework
Department for Communities



Risk management is embedded into the Department's business planning process at both strategic and operational levels in line with DoF guidance and follows the approach set out in The Orange Book 'Management of Risks - Principles and Concepts' - HM Treasury. The system of internal control is designed to maintain risk at a manageable level, based on a risk appetite agreed by the Departmental Management Board, in order to provide a reasonable assurance of effectiveness. Risks are monitored on a regular basis and escalated and de-escalated as required.

Department for Communities – Risk Appetite and Areas of Risk Managed during 2017-18		
Risk Category	Risk Appetite	Risk Identified
Operational	Open	Insufficient flexibility in resourcing management resulting in inappropriate prioritisation of objectives.
		Failure to prepare and manage cyber security leading to failure of business systems and / or loss of key data.
Financial	Averse	No sustainable funding model and organisational model for social housing would impact negatively on housing stock.
Statutory Compliance	Averse	Deficiencies in ALB Sponsorship and / or governance arrangements result in under performance, reputational damage or inefficient delivery.
		Failure to prepare for and manage corporate responsibilities for Safeguarding and H&S causes harm to staff, visitors, and / or service users.
Propriety	Open	None.
Change	Open	Welfare Reforms delays in securing resourcing impact on other areas of benefit delivery time and cost over runs.
Information	Open	Loss or unauthorized disclosure of information leads to reputational damage and non-compliance with legal requirements.

3.6 Key Risks and Issues

The Department's integrated assurance process facilitates the capture and reporting of exceptions/material concerns for both the Department and its ALBs. I receive a quarterly report of matters raised, including matters highlighted in the 2016-17 Governance Statement, where they remain significant.

The Head of Governance provides a Risk and Assurance report which summarises key risks and issues, along withexceptions / material concerns identified through the assurance process, for DARAC consideration on a quarterly basis.

The most significant issues relating to the Department's business in 2017-18 are detailed below:

Northern Ireland Assembly and Budget Authority

The Northern Ireland Assembly was dissolved on 26 January 2017, with an election taking place on 2 March 2017, on which date Ministers ceased to hold office. An Executive was not formed following the 2 March 2017 election. As a consequence, the Northern Ireland Budget Act 2017 was progressed through Westminster, receiving Royal Assent on 16 November 2017, followed by the Northern Ireland Budget (Anticipation and

Adjustments) Act 2018 which received Royal Assent on 28 March 2018. The authorisations, appropriations and limits in these Acts provide the authority for the 2017-18 financial year and a vote on account for the early months of the 2018-19 financial year as if they were Acts of the Northern Ireland Assembly.

General Data Protection Regulations (GDPR)

GDPR will be introduced on 25 May 2018 and represents the biggest change in data protection law for 20 years. The Department agreed a GDPR strategy and implementation plan in November 2017. The Implementation Plan is being closely managed to ensure readiness for the change.

Protective Security

During 2017-18 there were five major security incidents, four involved Royal Mail losing information in the postal system and the other involved an Appeals Tribunal Panel Member losing a set of Appeals Papers.

Public Appointments

Board members and Chairs of DfC bodies are appointed by the Minister. The absence of a Minister for Communities has meant that new appointments have not been possible during 2017-18. With the approval of the Commissioner for Public Appointments NI (CPANI) some competitions have commenced in readiness for a returning Minister. CPANI has also approved a number of Board member extensions/re-appointments so that Boards remain quorate.

Fraud and Whistleblowing

During 2017-18, 21 incidents of suspected fraud were received relating to both the Department and its ALBs. One case was brought forward from 2015-16 and three cases were brought forward from 2016-17. Of the cases investigated and closed during the year there were three cases of actual fraud, three cases where fraud was attempted but prevented due to the operation of internal controls and ten cases where no evidence of fraud was found. Investigations into nine cases were ongoing at year end.

During 2017-18 the Department received 39 concerns through whistleblowing arrangements, 27 of which related to ALBs.

Fraud and Error in Benefit Expenditure

DfC is responsible for payment of social security benefits including the range of new benefits introduced under Welfare Reform. With all benefit processing there is an inherent risk of fraud/error which the NIAO highlights as the most significant risk in terms of material misstatement in the Department's financial statements.

A wide range of activities is in place to mitigate against the risk of fraud and error within benefit systems. The estimated level of fraud/error has however resulted in qualification of the audit opinion on the regularity of benefit expenditure and will remain an area of focus for the Department.

Welfare Reform

The programme of Welfare Reform changes and specifically the introduction of Universal Credit represents the most substantial and widespread change to the welfare system since its inception. In addition to UK wide changes the Northern Ireland Executive agreed a range of mitigation measures in the form of Welfare Supplementary Payments for Northern Ireland which have been in place since 2016-17.

All Welfare Reforms are now live in Northern Ireland, including Universal Credit which began roll out in September 2017. Following a

Judicial review of Personal Independence Payment in Great Britain the Department is working with DWP to implement new guidance. A full review of cases affected is underway.

The NIAO is due to publish a report on Welfare Reform in Northern Ireland in autumn 2018. This will cover the UK wide reforms along with the mitigation arrangements and flexibilities unique to Northern Ireland.

Employment and Support Allowance (ESA)

Following a National Audit Office report in March 2018 remedial plans are being put in place to address claimants that may be underpaid ESA.

Jobseekers Allowance – Disability Premiums

People in receipt of income-based Jobseeker's Allowance (JSA) may be entitled to a disability premium if they receive either Personal Independence Payment or Armed Forces Independence Payment. The Department has been alerted to the fact that JSA regulations need to be amended to cover this policy provision. The Department is working to identify the number of Northern Ireland claimants impacted and have sought Department of Finance approvals while amendment to regulations is progressed.

Child Maintenance

There have been long standing issues with the accuracy of child maintenance assessments and recorded arrears, under both the 1993 and 2003 Child Maintenance Schemes.

The 1993 and 2003 schemes are now closed to new applicants and the replacement 2012 scheme is underpinned by completely new operational accounting systems. Parents are also now supported and encouraged to make their own family based arrangements.

While closed to new applicants, the historic weaknesses in relation to 1993 and 2003 scheme cases are unlikely to be substantially resolved and this is reflected in NIAO qualifications to the Child Maintenance Client Funds Account.

Housing

Social housing reform has not progressed during 2017-18 nor has it been possible to progress a long term rent strategy for the Northern Ireland Housing Executive (NIHE) and rents remain frozen. This has impacted on the NIHE's ability to invest adequately to maintain its housing stock, the quality of which is continuing to decline.

The NIHE was impacted by the collapse of Carillion PLC in January 2018 with contracts for response maintenance and heating services in place with Carillion Energy Services (CES). Services were novated to a new supplier by the appointed liquidator ensuring minimal disruption and continuity of service provision.

Housing Associations

A new framework for the Regulation of Registered Housing Associations was implemented during 2017-18. The new framework provides outcome based standards for Governance, Finance and Consumers and is designed to reflect the private status of Northern Ireland Housing Associations.

Preparatory work on policy and legislation to review the status of Northern Ireland Housing Associations has been undertaken but has not been progressed. A change in classification is required to allow current arrangements for Housing Association borrowing to continue. HM Treasury has provided a derogation from public sector classification to allow time for legislation to be passed and application to extend the derogation into 2019-20 will be sought.

The Department has commenced a Statutory Inquiry under Article 23 of the Housing Order 1992 which should report in 2018-19.

Work continues on the remedy and associated policy issues arising from the Judicial Review of the Department's decision to cease payment of Special Needs Management Allowance (SNMA) to Residential Care Homes managed by Housing Associations.

Northern Ireland Central Investment Fund for Charities

The need for arrangements for managing any perceived conflict of interest in respect of the Department's role as sponsor for the Charities Commission and its responsibility for the Northern Ireland Central Investment Fund was highlighted in the 2016-17 Governance Statement. Arrangements are now in place and the "soft close" of the fund was lifted in October 2017 allowing new investments to be accepted.

Northern Ireland Events Company (NIEC)

All former Directors of the NIEC have accepted undertakings or a judgement has been applied preventing them from acting as Company Directors.

Departmental officials have been appointed as Directors to progress the wind up of the company and conclusion of all final tax and accounting matters. Wind up should be concluded in 2018-19.

Limited Opinion Audit Reports

Internal Audit issued four Limited opinion audit reports in 2017-18: T:BUC (Together: Building a United Community); The Department's oversight of the Supporting People Programme; Health & Safety; and the Maintenance of the Monuments & Buildings Record. Subsequent follow up on the T:BUC audit has resulted in the audit opinion being raised to Satisfactory. Internal Audit follow-up in respect of previously Limited audit reports: Steps to Success Employment Programme; and the Sponsorship of the North/South Bodies also resulted in the audit opinion being raised to Satisfactory.

A further two Limited opinion reports have issued since March 2018: Income Support 2017-18 and the Effective Management of State Care Monuments. All recommendations have been accepted and follow-up is scheduled to be completed during 2018-19.

Three Internal Audit Limited opinion reports issued prior to 2017-18 in relation to Enforcement within Historic Environment Division; Children and Vulnerable Adults' Safeguarding Arrangements; and Capital Programme and Project Delivery (excluding Capital Stadia) remain Limited with Internal Audit follow up scheduled for 2018-19. All recommendations have been accepted and implementation is underway.

During 2016-17 an NICS wide assurance review of the management of IT security and information risk was performed and a Limited opinion was provided. A further review was completed in March 2018 resulting in the opinion being raised to Satisfactory. This is due to be considered by the NICS Information Governance and Innovation Board (IGIB) in late May 2018.

Sponsorship Arrangements

Sponsorship arrangements are in place for all bodies sponsored by DfC. Review of sponsorship for each DfC body is included within Internal Audit plans. This provides assurance to me on the operation of sponsorship responsibilities and all audits completed for DfC to date have provided satisfactory assurance in respect of the arrangements in place.

Sponsorship arrangements are supplemented by Governance reviews or additional audit work where the need for additional information or assurance is identified. During 2017-18 additional audit work or Governance reviews were undertaken in respect of the Arts Council (ACNI), the NIHE, and Ulster Supported Employment Limited (USEL).

The need for the ACNI review related to the effective operation of the ACNI Board and submission of biannual assurances to the Department. The Department is taking forward the recommendations from the review to secure necessary improvements and assurance.

Additional audit work in respect of the NIHE arose following the NIAO decision to delay certification of 2016-17 accounts until satisfied that the independence of the NIHE Internal Audit function had not been compromised. The Department's HIA undertook the review which included External Quality Assessment of the NIHE Internal Audit service. This work allowed certification of the 2016-17 accounts to proceed and the Department will maintain oversight of the review recommendations until fully implemented.

The need for additional audit work in respect of USEL was identified through normal sponsorship arrangements. The additional audit work was commissioned to cover Corporate Governance and Risk Management, Procurement, HR, and Financial Management. The Department will take forward the findings and recommendations from the review to secure necessary improvements and assurance. USEL failed to secure necessary departmental approvals in respect of actions relating to a redundancy. Associated expenditure is therefore irregular.

Issues Relating to Sponsor Bodies

Issues relating to Armagh Observatory and Planetarium (AOP) and Sport NI were highlighted in the 2016-17 Governance Statement and are reported in the Comptroller and Auditor General's 2017 General Report. AOP accounts for 2014-15 and 2015-16 are now certified and the NIAO has reported on the issues relating to procurement, approval of Direct Award Contracts, management/control of assets and irregular expenditure. The Department has robust sponsorship arrangements with AOP and maintains oversight of the improvements being taken forward by the organisation.

Sport NI accounts for 2014-15 and 2015-16 are not yet certified and the Department has sought assurances in respect of timeliness and accounting capability within Sport NI. The Department maintains robust sponsorship arrangements with Sport NI including quarterly meetings at Deputy Secretary level which will continue into 2018-19. The NIAO will complete a standalone report on Sport NI which will examine the adequacy of the governance, leadership and Departmental oversight of Sport NI during a period of internal instability and change and assess the capacity and capability of Sport NI to deliver its aim and objectives going forward. The NIAO aims to publish its report in 2018.

North/South Language Bodies

In the absence of a DfC Minister it was not possible to secure North South Ministerial Council (NSMC) approval of 2017 and 2018 Business Plans for North South Language Bodies. While arrangements have been made with DoF to ensure legality of payments in the absence of business plans, expenditure will be irregular until the NSMC approves Business Plans.

It is a legislative requirement under the North/South Co-operation (Implementation Bodies) (Northern Ireland) Order 1999 that any grants paid to bodies by a Northern Ireland Sponsor Department must be approved by DoF. Where such an approval is absent any expenditure is illegal and retrospective consent cannot confer legality. A grant payment amounting to £16.6K was made in the 2017-18 financial year to Ulster Scots Agency without DoF approval. The payment to Ulster Scots Agency is therefore illegal because it is not in compliance with this legislative requirement.

Conclusion

I am satisfied that DfC has effective governance arrangements in place that I can rely on as Accounting Officer to provide assurance that the public funds and other resources for which I am accountable are deployed effectively. Where significant issues have arisen I am satisfied that appropriate action is being taken to address the issues concerned.

Remuneration and Staff Report

The remuneration and staff report gives details of the salaries and pensions of the Department's staff during the accounting period. The remuneration report deals largely with details pertaining to senior management and ministers, whereas the staff report gives details of staffing costs for the Department as a whole, including for those not permanently employed by the Department, the pension schemes available to employees, policies on managing attendance and employment of disabled staff as well as details of the costs of any staff exit packages.

Remuneration Report

Remuneration Policy

The Senior Civil Service (SCS) remuneration arrangements are based on a system of pay scales for each SCS grade containing a number of pay points from minima to maxima, allowing progression towards the maxima based on performance. In 2012, upon creation, there were 11 points on each scale. The minimum point has been removed in each year from 2014 to 2016 (the scales now have 8 pay points) to allow progression through the pay scales within a reasonable period of time.

The pay remit (for the NI public sector and SCS) is normally approved by the Minister of Finance but in the absence of an Executive the DoF Permanent Secretary has set the 2017-18 NI public sector pay policy in line with the overarching HMT parameters and in a manner consistent with the approach taken by the previous Finance Minister in 2016-17.

Service Contracts

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

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

Further information about the work of the Civil Service Commissioners can be found at **www.nicscommissioners.org**.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Ministers and most senior management of the Department.

Remuneration (including salary) and pension entitlements (Audited Information)

Minister*	Salary £	Benefits in kind (to nearest £100)	Pension Benefits** (to nearest £1,000)	Total (to nearest £1,000)	Salary £	Benefits in kind (to nearest £100)	Pension Benefits** (to nearest £1,000)	Total (to nearest £1,000)
Lord Morrow Member of Legislative Assembly (from 12 January 2016 to 5 May 2016)	–	–	–	–	3,677	–	1,000	5,000
Paul Givan Member of Legislative Assembly (from 25 May 2016 to 2 March 2017)	–	–	–	–	29,419	–	9,000	38,000

*No Minister was in place during 2017-18.

**The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation and any increase or decrease due to a transfer of pension rights.

Senior Management Remuneration (Audited Information)

	2017–18				2016–17			
Officals	Salary £'000	Benefits in kind (to nearest £100)	Pension Benefits** (to nearest £'000)	Total £'000	Salary £'000	Benefits in kind (to nearest £100)	Pension Benefits** (to nearest £'000)	Total £'000
Leo O'Reilly Permanent Secretary	115–120	–	–	**115-120**	115-120	–	52	165–170
Jackie Kerr Deputy Secretary Strategic Planning and Resources Group	85-90	–	65	**145-150**	50-55	–	101	150-155
Louise Warde- Hunter Deputy Secretary Housing, Urban Regeneration and Local Government Group (from 24 April 2017)	80-85 (85-90 full year equivalent)	–	18	**95-100**	–	–	–	–
Ian Snowden Acting Deputy Secretary Engaged Communities Group (from 30 October 2017)	35-40 (85-90 full year equivalent)	–	4	**40-45**	–	–	–	–
David Malcolm Acting Deputy Secretary Work and Inclusion Group (from 5 March 2018)	5-10 (85-90 full year equivalent)	–	12	**15-20**	–	–	–	–
Ian Maye Deputy Secretary (to 5 August 2017 Deceased)	30–35 (90-95 full year equivalent)	–	7	**35-40**	90-95	–	33	120-125
Tommy O'Reilly* Deputy Secretary (to 1 May 2017)	5–10 (100-105 full year equivalent)	–	(7)	**0-5**	100-105	–	13	115-120
Denis McMahon Deputy Secretary (to 18 February 2018)	80–85 (90-95 full year equivalent)	–	27	**105–110**	90–95	–	34	125–130

Senior Management Remuneration (Audited Information) (continued)

	2017-18				2016–17			
Officals	**Salary £'000**	**Benefits in kind (to nearest £100)**	**Pension Benefits** (to nearest £'000)**	**Total £'000**	**Salary £'000**	**Benefits in kind (to nearest £100)**	**Pension Benefits** (to nearest £'000)**	**Total £'000**
Andrew Hamilton Deputy Secretary (to 31March 2017 Retired)	–	–	–	**–**	100-105	–	(60)	40-45
Tracy Meharg Deputy Secretary (to 31 August 2016)	–	–	–	**–**	100-105	–	12	110-115
Deep Sagar Independent Board Member (to 31 July 2016)	–	–	–	**–**	0-5	Expenses during 2016–17= £700	–	0–5
John West Independent Board Member	20–25	Expenses during 2017-18 = £600	–	**20-25**	5–10	Expenses during 2016–17= £200	–	5–10
Roy Keenan Independent Board Member (to 31 March 2017)	–	–	–	**–**	5–10	Expenses during 2016–17= £1600	–	10-15
Duncan McCausland Independent Board Member (from 1 September 2017)	11-15	Expenses during 2017-18= £300	–	**11-15**	–	–	–	–
Band of Highest Paid Director's Total Remuneration	115–120				115–120			
Median Total Remuneration	£24,713				£24,975			
Ratio	4.75				4.70			

*In line with the SCS pay award arrangements for 2012, staff who, after assimilation to the new pay scales, received less than 1%consolidated increase to their salary received a non-consolidated pensionable payment to bring them up to the equivalent value of 1%. No officials received a non- consolidated pensionable payment in 2017–18 (2016-17, one official in the £100-105k pay band).

**The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation and any increase or decrease due to a transfer of pension rights.

Fair Pay Disclosures (Audited Information)

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

The banded remuneration of the highest paid director in the Department in the financial year 2017–18 was £115-120k (2016–17: £115–£120k). This was 4.75 times (2016-17: 4.70) the median remuneration of the workforce, which was £24,713 (2016-17: £24,975). No employee received remuneration in excess of the highest paid director in 2017-18, nor in 2016–17. Remuneration ranged from £17,352 to £119,556 (2016–17: £17,352 to £119,556). Total remuneration includes salary, non-consolidated performance- related pay and benefits-in-kind. It does not include severance payments, employer pension contributions, nor the cash equivalent transfer value of pensions. The change in the pay multiple ratio between 2017–18 and 2016–17 is due to a slight downward change in the median remuneration of the workforce.

Salary

'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation and any ex gratia payments.

The Northern Ireland Assembly was dissolved from 26 January 2017 with an election taking place on 2 March 2017, on which date Ministers ceased to hold office. An Executive was not formed following the 2 March 2017 election. As a consequence, there has been no Minister in place in the Department during the 2017-18 year.

Prior to the election on 2 March 2017, the Department for Communities was under the direction and control of Lord Morrow (as the Department for Social Development) up to 5 May 2016 and then, from 25 May 2016, under the control of Paul Givan up to 2 March 2017.

Ministerial salaries and allowances were paid by the Northern Ireland Assembly and have been included as a notional cost in the prior year comparative figures within these accounts. These amounts do not include costs relating to the Minister's role as MLA/ MP/MEP which are disclosed elsewhere.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument.

Pension Benefits - Ministers (Audited Information)

For 2017-18 no Ministers were in place.

Pensions of Senior Management (Audited Information)

Officals	Accrued pension at pension age as at 31/3/18 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/18	CETV at 31/3/17	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000 *(Restated)	£'000	Nearest £100
Leo O'Reilly Permanent Secretary	60–65 plus lump sum 180–185	0–2.5 plus lump sum 0–2.5	1,333	1,309	(1)	–
Jackie Kerr Deputy Secretary Strategic Planning and Resources Group	35–40 plus lump sum 95–100	2.5–5 plus lump sum 2.5–5	680	595	45	–
Louise Warde-Hunter Deputy Secretary Housing, Urban Regeneration and Local Government Group (from 24 April 2017)	15-20	0–2.5	342	296	15	–
Ian Snowden Acting Deputy Secretary Engaged Communities Group (from 30 October 2017)	25-30 plus lump sum 70-75	0-2.5 plus lump sum (0-2.5)	420	423	(11)	–
David Malcolm Acting Deputy Secretary Work and Inclusion Group (from 5 March 2018)	25-30 plus lump sum 70-75	0-2.5 plus lump sum 0-2.5	471	461	8	–
Ian Maye Deputy Secretary (to 5 August 2017 Deceased)	35-40 plus lump sum 110-115	0-2.5 plus lump sum 0-2.5	743	728	6	–
Tommy O'Reilly Deputy Secretary (to 1 May 2017)	40-45 plus lump sum 130-135	(0-2.5) plus lump sum (0-2.5)	1,002	1,006	(8)	–
Denis McMahon Deputy Secretary (to 18 February 2018)	15-20	0-2.5	244	214	12	–

Northern Ireland Civil Service (NICS) Pension Schemes

Pension benefits are provided through the Northern Ireland Civil Service pension previous scheme arrangements are unfunded with the cost of benefits met by monies voted each year. The majority of existing members of the classic, premium, classic plus and schemes which are administered by Civil Service Pensions (CSP). The alpha pension scheme was introduced for new entrants from 1 April 2015. The alpha scheme and all nuvos pension arrangements also moved to alpha from that date. Members who on 1 April 2012 were within 10 years of their normal pension age did not move to alpha and those who were within 13.5 years and 10 years of their normal pension age were given a choice between moving to alpha on 1 April 2015 or at a later date determined by their age. Alpha is a 'Career Average Revalued Earnings' (CARE) arrangement in which members accrue pension benefits at a percentage rate of annual pensionable earnings throughout the period of scheme membership. The rate is 2.32%. New entrants joining can choose between membership of alpha or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

New entrants joining on or after 30 July 2007 were eligible for membership of the nuvos arrangement or they could have opted for a partnership pension account. Nuvos is also a CARE arrangement in which members accrue pension benefits at a percentage rate of annual pensionable earnings throughout the period of scheme membership. The current rate is 2.3%.

Staff in post prior to 30 July 2007 may be in one of three statutory based 'final salary' defined benefit arrangements (classic, premium and classic plus).

From April 2011, pensions payable under classic, premium, and classic plus are reviewed annually in line with changes in the cost of living. New entrants joining on or after 1 October 2002 and before 30 July 2007 could choose between membership of premium or joining the partnership pension account.

All pension benefits are reviewed annually in line with changes in the cost of living. Any applicable increases are applied from April and are determined by the Consumer Prices Index (CPI) figure for the preceding September. The CPI in September 2017 was 3% and HM Treasury has announced that public service pensions will be increased accordingly from April 2018. Employee contribution rates for all members for the period covering 1 April 2018 – 31 March 2019 are as follows:

Scheme Year 1 April 2018 to 31 March 2019

Annualised Rate of Pensionable Earnings (Salary Bands)		Contribution rates – Classic members or classic members who have moved to alpha	Contribution rates – all other members
From £	To £	From 01 April 2018 to 31 March 2019	From 01 April 2017 to 31 March 2019
0	15,000.99	4.6%	4.6%
15,001.00	21,636.99	4.6%	4.6%
21,637.00	51,515.99	5.45%	5.45%
51,516.00	150,000.99	7.35%	7.35%
150,001.00 and above		8.05%	8.05%

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

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution).

Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach their scheme pension age, or immediately on ceasing to be an active member of the scheme if they are at or over pension age. Scheme Pension age is 60 for members of classic, premium, and classic plus and 65 for members of nuvos. The normal scheme pension age in alpha is linked to the member's State Pension Age but cannot be before age 65.

Further details about the NICS pension schemes can be found at the website **www.finance-ni.gov.uk/topics/working-northern-ireland-civil-service/civil-service-pensions-ni**

Cash Equivalent Transfer Values

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

CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2015 and do not take account of any actual or potential benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period. However, the real increase calculation uses common actuarial factors at the start and end of the period so that it disregards the effect of any changes in factors and focuses only on the increase that is funded by the employer.

Staff Report
Staff Costs (Audited Information)

	2017–2018					2016–2017
	Permanent staff* £'000	**Others £'000**	**Ministers £'000**	**Special advisers £'000**	**Total £'000**	Total £'000 (Restated)
Wages and salaries	188,027	18,567	–	–	206,594	199,313
Social security costs	16,884	–	–	–	16,884	17,248
Other pension costs	39,416	–	–	–	39,416	40,326
Sub Total	244,327	18,567	–		262,894	256,887
Less recoveries in respect of outward secondments	(315)	–	–	–	(315)	(427)
Total net staff costs	**244,012**	**18,567**	**–**	**–**	**262,579**	256,460
Of which:	Charged to Administration	Charged to Programme	**Total**			
Core Department	35,115	227,464	**262,579**			
Total net costs	**35,115**	**227,464**	**262,579**			

*There were no staff costs incurred in respect of the Department's Special Adviser in 2017-18. The 2016-17 figures include the cost of the Department's Special Adviser who was paid in the pay band £59,627 to £91,809.

The Northern Ireland Civil Service main pension schemes are unfunded multi-employer defined benefit schemes but the Department is unable to identify its share of the underlying assets and liabilities. The most up to date actuarial valuation was carried out as at 31 March 2012. This valuation is then reviewed by the Scheme Actuary and updated to reflect current conditions and rolled forward to the reporting date of the DoF Superannuation and Other Allowances Annual Report and Accounts as at 31 March 2018.

For 2017–18, employer's contributions of £38.827 million were payable to the NICS pension arrangements (2016–17: £39.511 million) at one of three rates in the range 20.8% to 26.3% of pensionable pay, based on salary bands. The Scheme's Actuary reviews employer contributions every four years following a full scheme valuation. A new scheme funding valuation based on data as at 31 March 2012 was completed by the Actuary during 2014-15. This valuation was used to determine employer contribution rates for the introduction of alpha from April 2015. For 2018–19, the rates will also range from 20.8% to 26.3% however the salary bands differ.

The contribution rates are set to meet the cost of the benefits accruing during 2017-18 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution.

Employer's contributions of £0.068 million (2016-17: £0.079 million) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% (2016-17: 8% to 14.75%) of pensionable pay.

Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £0.002 million, 0.5% (2016-17: £0.002 million, 0.5%) of pensionable pay, were payable to the NICS Pension schemes to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the reporting period date were nil.

Contributions prepaid at that date were nil. Thirty-five (2016-17 thirty-three) persons retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £0.089 million (2016–17: £0.044 million).

Average Number of Persons Employed (Audited Information)

The average number of whole-time equivalent persons employed during the year is shown in the table below. These figures include those working in the Department as well as in agencies and other bodies included within the consolidated Departmental Annual Report and Accounts.

	2017–2018					2016–2017
Departmental Activity	**Permanent staff**	**Others**	**Ministers**	**Special advisers**	**Total**	Total
Staff Employed	7,050	1,047	–	–	8,097	8,001
Staff engaged on capital projects	–	–	–	–	–	–
Total	**7,050**	**1,047**	**–**	**–**	**8,097**	8,001
Of which:						
Core Department	**8,097**					

Senior Staff by Payband

The number of SCS (or equivalent) staff by pay band as at 31 March 2018 is as follows:

Pay Band £'000	Total
66–75	20
76–85	3
86–95	4
96–105	–
106–115	–
116–125	1
Total	**28**

Employee Gender

At 31 March 2018 there were 7,824 staff (based on staff headcount) plus an additional 1,125 recruitment agency staff employed within the Department. This figure excludes staff on career breaks. Below is a gender breakdown including staff at Grade 5 and above:

	Male	Female	Total
Senior Staff (Grade 5+)	15	13	28
Employees	3,726	5,195	8,921
Total	**3,741**	**5,208**	**8,949**

Sickness Absence Data

There was no NICS-wide or departmental sick absence rate targets set for 2016-17. For that period, the Department had an overall sick absence rate of 14.7 days lost per employee. NISRA's projection for 2017-18 outturn for the Department is currently estimated at 15.4 days lost per employee. The verified figures for 2017-18 will not be available until mid-September 2018.

Health and Safety at Work

The Department has a range of measures in place to ensure its compliance with the requirements of the Health and Safety at Work (NI) Order 1978 and all other legislation and codes of practice. The Department is committed to ensuring so far as is reasonably practical the health, safety and welfare of its employees and of others who may be affected by its operations.

The Department ensures that its employees are given such information, instruction, training and supervision as is necessary to ensure the safe performance of their work duties. Arrangements are also in place to enable employees to raise health and safety issues.

Our Policy on Employment of Disabled Persons

Responsibility for the development of HR and recruitment policies for all the NICS departments rests with NICSHR in the Department of Finance. Recruitment exercises are carried out by HRConnect (an outsourced shared services organisation). NICSHR has policies in place to give full and fair consideration to applications for employment from people with disabilities. The NICS Departments recognise that many people with disabilities face barriers both in continuing their employment and progressing their careers therefore NICSHR has policies in place to identify reasonable adjustments to overcome barriers such as changes to work processes, duties, location, the provision of specialist equipment etc. Further information is available from the Department of Finance website.

NICSHR has operated the NICS Work Experience Scheme for People with Disabilities since April 2016. Applications are received from Disability Organisation seeking structured work placements for their clients. Further information on the scheme, including a process map and application form is available on the NICS Recruitment website. During the 2017-18 financial year, 13 applications were received from 3 Disability organisations, 10 of which resulted in placements being agreed with departments. In agreeing placements NICS HR liaise with the Departments to ensure appropriate arrangements are made based on the specific needs of the individual. It is important that work placements provide opportunity for the person to gain valuable experience which will increase their employability skills. Work also commenced towards the end of 2017 to consider a review of the scheme and agree a plan to promote and expand the scheme both internally within the NICS and externally with Disability organisations.

The NICS has set up a network of Diversity Champions, some of whom look after specific themes including Disability, Lesbian, Gay, Bisexual & Transgender (LGBT) and Black & Minority Ethnic (BME). Departmental Diversity Champions have also been appointed. During 2016 the NICS Disability Diversity Champion set up a Working Group to review the impact of NICS policies and practices on staff with disabilities. The Working Group which was made up of staff with disabilities and representatives from disability groups produced a report and recommended actions. Further work on the action plan is underway.

Other Diversity Issues and Equal Treatment in Employment and Occupation

The NICS has developed a People Strategy which details the people priorities over the period 2018 to 2021. It places diversity and inclusion at its centre and includes a range of actions that will help accelerate the NICS' ambition to have a truly inclusive workforce culture and to be a service that reflects the society we serve. In addition to these specific actions the NICS will ensure diversity and inclusion is central to everything it does, including how it communicates, recruits, promotes, develops and manages its workforce. A diversity action plan has been drawn up to promote diversity and inclusion while additional action plans have been drawn up to address specific issues related to gender and disability. Work on LGB&T issues has included a survey of staff and the creation of the NICS LGB&T staff network. Further developments in the area are planned including membership of the Stonewall NI Diversity Champions network and the development of advice on Transgender issues. The NICS continues to carry out its statutory obligations under fair employment legislation including the annual return to the Equality Commission for NI and the triennial reviews of the workforce profile which are published on the Department of Finance website.

Employee Consultation and/or Participation: Trade Union Relationships

The Department of Finance is responsible for the policy on how the Northern Ireland Civil Service consults and negotiates with its staff through industrial relations. The centralised human resource function, NICSHR, has continued to consult on central matters with all recognised Trade Unions (Non-industrial Trades Unions: Northern Ireland Public Service Alliance(NIPSA), First Division Association, Prison Officers' Association (POA), Industrial Trades Unions: Unite the Union (Unite), GMB), throughout the year. Arrangements also exist at local level within each Department to consult on matters specific to that Department or individual business area.

A Review of NICS Trade Union Arrangements is ongoing. Phase 1 of the review culminated in a new Trade Union Arrangements chapter, published in the NICS HR Handbook in January 2016. Phase 2 of the Review is at the planning stage.

Human Capital Management

(i) Career Development

The NICS is committed to career development, acknowledging that skilled and engaged staff are an essential resource in meeting current and future business needs. This NICS Career Development Policy emphasises that career development is a collaborative process between individual staff members, line managers, and Departments, and takes account of the NICS Competency Framework and Performance Management System. As well as the individual's role in managing their career development, the NICS provides opportunities to enhance the skills, capabilities and performance of staff so that they, in turn, can contribute to achieving corporate objectives.

There is a wide range of career development options available within the NICS and within the Career Development Policy that support various career development interventions including secondment and interchange opportunities, elective transfers, temporary promotion, job rotation, job shadowing, as well as mentoring.

In line with the NICS People Strategy 2018 - 2021 further development in the area is planned, including Talent Management Proposals to support a more corporate approach to talent management across the NICS.

(i) Learning & Development

The NICSHR Centre for Applied Learning (CAL) purpose is to enable the achievement of the Programme for Government (PfG) outcomes through the delivery of generic learning and development services aligned to the NICS People Strategy. The CAL approach to delivering its services is designed to respond to the changing needs of the NICS and includes the following components:

- Offering a variety of learning delivery channels to enable flexible access to learning

- Providing an enhanced Learning and Development experience where staff can focus on their personal development using learning interventions that are aligned to corporate need, PfG, People Strategy, NICS of the Future and the NICS Competency Framework
- Blending different learning solutions into coherent learning pathways
- Value for money learning through the use of technology to provide concise and focused modules of learning
- Develop practical capability for learners that incorporates the latest tools and techniques
- Work collaboratively with NICSHR colleagues, Suppliers, Departments and the NICS Professions to identify, develop and deliver current and future learning interventions

(ii) Pay policy

Under the Civil Service (NI) Order 1999, the Department of Finance is responsible for the pay arrangements of NICS civil servants (apart from those agencies, non-ministerial government departments and other bodies with an agreed pay delegation). The pay award system aims to

a. be a system which will help to recruit, retain and motivate staff to perform efficiently the duties required of them

b. encourage staff to improve their individual performance by providing a direct and regular link between satisfactory performance and pay

c. ensure equity of treatment in respect of pay in accordance with legal requirements and the equal opportunities policy of the NICS

d. secure the confidence of staff that their pay will be determined fairly

e. secure the confidence of the public and their representatives in the system for determining the pay of the staff

f. enable the Government to reconcile its responsibilities for the control of public expenditure with its responsibilities as an employer

Current pay scales are available online. NI public sector pay guidance for 2017 is now in place and formal negotiations with trades unions on the 2017 pay award are ongoing.

Consultancy Expenditure

During the 2017–18 year the Department spent £1,164,403 on external consultancy (£1,103,096 in 2016–17). This expenditure is incurred where there is a requirement for an expertise which existing members of staff may not have, an additional resource when it is not available internally, or an independent view or assessment when required.

The Department also spent £18.567 million on the employment of temporary staff. These staff were largely engaged in providing services to the Department for Work and Pensions for the administration of Child Maintenance and Benefit Delivery services and also to the Historic Environment to cover additional workload and special exercises.

Off-Payroll Engagements

Off-payroll engagements at an annual cost of over £58,200 per annum during 2017–18 are outlined below:

A Off payroll engagements as at 1 April 2017 (Restated)	**12**
B New engagements or those reaching 6 months' duration during the year	**2**
Of those noted at B:	
(i) Those caught byIR35	
Which consists of:	
Number engaged directly (via Personal Services Company contracted to the Department) and are on the departmental payroll	–
Number of engagements reassessed for consistency/assurance purposes during the year	–
Number of engagements changed to IR35 status following the consistency review	–
(ii) Those not caught byIR35	2
C Number of engagements that have come onto the payroll during the year	**–**
D Engagements that have come to an end during the year	**7**
E Closing number of engagements at 31 March 2018	**7**

Exit Packages (Audited Information)

The following section is subject to audit. Data for the 2016-17 year is shown in brackets.

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	–	5 (5)	5 (5)
£10,000–£25,000	–	12 (3)	12 (3)
£25,000–£50,000	–	11 (10)	11 (10)
£50,000–£100,000	–	–	–
£100,000–£150,000	–	–	–
£150,000–£200,000	–	–	–
Total number of exit packages	**–**	**28 (18)**	**28 (18)**
Total Resource Cost £	**–**	**628 (445)**	**628 (445)**

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (Northern Ireland), a statutory scheme made under the Superannuation (Northern Ireland) Order 1972.

Exit costs are accounted for in full in the year of departure. Where the Department has agreed early retirements, the additional costs are met by the Department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Assembly Accountability and Audit Report

Statement of Assembly Supply (Audited Information)

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires the Department for Social Development to prepare a Statement of Assembly Supply (SoAS) and supporting notes to show resource outturn against Supply Estimate presented to the Assembly, in respect of each request for resources.

Summary of Resource Outturn 2017-18

	2017-18							2016-17
	Estimate			Outturn				Outturn
	Gross Expenditure £'000	Accruing Resources £'000	Net Total £'000	Gross Expenditure £'000	Accruing Resources £'000	Net Total £'000	Net total outturn compared with estimate: saving/(excess) £'000	Net Total £'000
Request for Resources A (note SoAS1) Providing a fair system of financial help to those in need; tackling disadvantage; promoting social and economic equality; personal development; tackling poverty; social exclusion; services that encourage family based child maintenance arrangements; access to decent, affordable sustainable homes and housing support services; improving the physical, economic, community and social environment of neighbourhoods, towns and cities; securing excellence and equality across culture, arts and leisure and developing a confident, creative, informed and healthy society; helping people into employment; protecting, conserving and enhancing our diverse built heritage and supporting principles of sustainable development so that it can be enjoyed by future generations; promoting and protecting the interests of children, older people, people with disabilities and other socially excluded groups.	4,527,707	(130,926)	4,396,781	4,347,129	(120,827)	4,226,302	170,479	4,220,085
Total resources (SoAS9)	4,527,707	(130,926)	4,396,781	**4,347,129**	**(120,827)**	**4,226,302**	**170,479**	4,220,085
Non-operating AR			(34,948)			**(33,574)**	**(1,347)**	(18,792)

Net cash requirement 2017-18

	2017-18				2016-17
	Note	**Estimate £'000**	**Outturn £'000**	**Net total outturn compared with estimate: saving/ (excess) £'000**	Outturn £'000
Net cash requirement	SoAS9	4,287,604	**4,147,494**	**140,110**	4,088,625

Summary of income payable to the Consolidated Fund

In addition to accruing resources, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics).

		2017–18 Forecast		**2017–18 Outturn**	
	Note	**Income £'000**	*Receipts £'000*	**Income £'000**	*Receipts £'000*
Total	SoAS10	1,669	*1,669*	**3,737**	***3,824***

Explanations of variances between Estimate and outturn are given in Note SoAS1 and in the Performance Report.

The notes on pages 87 to 161 form part of these accounts.

SoAS1 Analysis of net resource outturn by function (Audited Information)

	2017-18									2016-17
	Outturn						Estimate			Outturn
	Admin £'000	Other Current £'000	Grants £'000	Gross Resource Expenditure £'000	Accruing Resources £'000	Net Total £'000	Net Total £'000	Net total outturn compared with Estimate £'000	Net total outturn compared with Estimate, adjusted for virements £'000	Prior Year £'000
Request for Resources A (RfR A): Providing a fair system of financial help to those in need; tackling disadvantage; promoting social and economic equality; personal development; tackling poverty; social exclusion; services that encourage family based child maintenance arrangements; access to decent, affordable sustainable homes and housing support services; improving the physical, economic, community and social environment of neighbourhoods, towns and cities; securing excellence and equality across culture, arts and leisure and developing a confident, creative, informed and healthy society; helping people into employment; protecting, conserving and enhancing our diverse built heritage and supporting principles of sustainable development so that it can be enjoyed by future generations; promoting and protecting the interests of children, older people, people with disabilities and other socially excluded groups.										
Departmental Expenditure in DEL										
Social Security Administration	16,693	226,773	53,949	297,415	(12,686)	284,729	301,468	16,739	16,475	250,083
Belfast Benefit Delivery Centre	–	28,753	–	28,753	(28,753)	–	–	–	–	–
Eastern Area (GB Child Maintenance Group)	–	27,773	–	27,773	(27,730)	43	–	(43)	–	–
Child Maintenance Service	796	9,703	–	10,499	(566)	9,933	10,697	764	721	15,439
Mesothelioma Compensation Scheme	–	–	37	37	(37)	–	–	–	–	–
Discretionary Support Scheme	–	–	6,752	6,752	–	6,752	8,863	2,111	2,111	12,637
Housing benefit	–	–	117,644	117,644	–	117,644	121,000	3,356	3,356	118,526
Housing	8,405	1,713	8,775	18,893	(24,913)	(6,020)	(5,302)	718	718	(11,872)
Housing grants to the NI Housing Executive	–	7,400	37,123	44,523	–	44,523	44,523	–	–	35,211
Interest Payments on Housing Loans	–	25,344	–	25,344	(25,344)	–	–	–	–	–
Urban Regeneration	7,842	4,980	7,717	20,539	–	20,539	21,380	841	841	54,609
Community and Voluntary Sector funding	5,020	454	35,703	41,177	(16)	41,161	41,619	458	458	17,573
Library and Other Services	21	–	317	338	–	338	301	(37)	–	310
Arts and Museums	8,198	208	2,705	11,111	–	11,111	11,119	8	8	5,910
Sports	1,831	2,468	1,524	5,823	(134)	5,689	6,062	373	356	6,268
Cultural Policy and Languages	481	176	936	1,593	–	1,593	1,763	170	149	1,453
Public Record Office of Northern Ireland	–	4,505	35	4,540	(54)	4,486	4,485	(1)	–	4,455
Historic Environment Division	–	7,438	253	7,691	(469)	7,222	7,451	229	229	6,288
Local Government Services	1,623	–	52,676	54,299	(125)	54,174	54,815	641	641	54,778
Employment and Skills	–	–	20,368	20,368	–	20,368	20,744	376	376	24,005

	2017-18									2016-17
	Outturn						Estimate			Outturn
Annually managed expenditure (AME):	Admin £'000	Other Current £'000	Grants £'000	Gross Resource Expenditure £'000	Accruing Resources £'000	Net Total £'000	Net Total £'000	Net total outturn compared with Estimate £'000	Net total outturn compared with Estimate, adjusted for virements £'000	Prior Year £'000
Non-contributory and means-tested benefits:										
– Pension benefits	–	–	6,149	6,149	–	6,149	6,370	221	221	5,946
– Disability benefits	–	–	1,458,657	1,458,657	–	1,458,657	1,490,601	31,944	31,944	1,398,100
– Industrial injuries benefits	–	–	29,289	29,289	–	29,289	30,666	1,377	1,377	29,387
– Pension credit	–	–	246,492	246,492	–	246,492	255,169	8,677	8,677	261,012
Income support – non-Pensioners, Jobseeker's Allowance, Employment and Support Allowance and Universal Credit:										
– Income support – non-pensioners	–	8,912	138,366	147,278	–	147,278	157,298	10,020	10,020	162,036
– Jobseeker's allowance	–	–	91,135	91,135	–	91,135	92,374	1,239	1,239	104,145
– Employment and support allowance (income related)	–	–	538,580	538,580	–	538,580	555,884	17,304	17,304	503,369
– Universal Credit	–	–	2,868	2,868	–	2,868	12,383	9,515	9,515	–
Job Grant	–	–	11	11	–	11	20	9	9	1,425
Housing benefit (rent)	–	–	548,811	548,811	–	548,811	556,569	7,758	7,758	577,733
Discretionary housing payments	–	–	3,622	3,622	–	3,622	4,500	878	878	3,286
Provisions, depreciation and impairments	–	6,803	–	6,803	–	6,803	34,799	27,996	27,996	56,561

	2017-18									2016-17
	Outturn						Estimate			Outturn
Non-Budget:	Admin £'000	Other Current £'000	Grants £'000	Gross Resource Expenditure £'000	Accruing Resources £'000	Net Total £'000	Net Total £'000	Net total outturn compared with Estimate £'000	Net total outturn compared with Estimate, adjusted for virements £'000	Prior Year £'000
Social Fund (Regulated)	–	–	7,770	7,770	–	7,770	12,752	4,982	4,982	4,534
Social Fund in respect of Winter Fuel Payments	–	–	48,000	48,000	–	48,000	52,335	4,335	4,335	52,900
Northern Ireland National Insurance Fund	–	–	70,200	70,200	–	70,200	70,200	–	–	61,100
Grant-In-Aid Paid to the Northern Ireland Housing Executive	–	–	282,000	282,000	–	282,000	298,063	16,063	16,063	286,000
Charity Commission (NI)	–	–	1,805	1,805	–	1,805	1,910	105	105	1,918
Ulster Supported Employment Limited	–	–	983	983	–	983	1,077	94	94	953
Arts Council of Northern Ireland	–	–	10,935	10,935	–	10,935	11,557	622	622	11,269
National Museums and Galleries Northern Ireland	–	–	12,768	12,768	–	12,768	12,747	(21)	–	13,343
Sports Council for Northern Ireland	–	–	10,642	10,642	–	10,642	11,026	384	252	13,577
Northern Ireland Library Authority	–	–	31,795	31,795	–	31,795	31,999	204	204	30,986
Armagh Observatory and Planetarium	–	–	1,977	1,977	–	1,977	1,866	(111)	–	1,917
Northern Ireland Museums Council	–	–	218	218	–	218	218	–	–	226
Language body	–	–	4,998	4,998	–	4,998	5,322	324	324	4,770
Commissioner for Children and Young People for Northern Ireland	–	–	1,334	1,334	–	1,334	1,348	14	14	1,398
Commissioner for Older People for Northern Ireland	–	–	833	833	–	833	940	107	107	880
Local government Staff Commission	–	–	–	–	–	–	–	–	–	2,000
Notional Charges	36,064	–	–	36,064	–	36,064	35,800	(264)	–	33,641
Prior period adjustment	–	–	–	–	–	–	–	–	–	–
Total	**86,974**	**363,403**	**3,896,752**	**4,347,129**	**(120,827)**	**4,226,302**	**4,396,781**	**170,479**	**170,479**	4,220,085

This Note shows the NIF administration costs for Northern Ireland being incurred in the 'Admin' column and offset by the income in the 'AR' column.

Explanation of the variation between Estimate and outturn for Request for Resources A (RfR A)

The **DEL** outturn is £26.999 million (4.1%) less than the Estimate. The main drivers of this variance are easements in Fresh Start Payments (£11.9 million) as a result of less than expected caseloads, easements in Housing Benefits Rates (£3.4 million) which are demand led and difficult to predict, easements in contract costs (£2.1 million) as result of fluctuations in volumes and continued underperformance against Service Levels and an exchange rate gain of £2.2 million in relation to Peace III monies received. The **AME** outturn is £116.378 million (3.6%) less than the Estimate due to the nature of this spend being demand led and difficult to predict. The **Non-budget** outturn is £27.102 million (4.9%) less than the Estimate mainly due to Social Fund Cold weather payments not being triggered (£7 million) and a reduced requirement for the Housing Regional Services cash drawdown to avoid drawing down funds in advance of need (£16 million).

Explanations of the variances are also given in section 2 of the Performance Report, 'Performance Analysis'.

The notes on pages 87 to 161 form part of these accounts.

SoAS2 Contributory benefit expenditure paid from the National Insurance Fund (Audited Information)

		2017–18	2016–17
	Note	£'000	£'000
Pension benefits			
Retirement pension			
– basic element		1,709,307	1,732,573
– additional component		434,576	439,605
New State Pension			
– basic element		122,382	37,741
– additional component		3,412	1,081
Christmas bonus		3,496	3,515
Widow's benefit			
– basic element		10,914	12,232
– additional component		1,155	1,370
– widow's payment		5,843	6,206
Unemployment, Invalidity and Sickness Benefits		(2)	(37)
Unemployment, incapacity and other benefits			
Jobseeker's Allowance			
– Contributions Based		11,139	13,866
Incapacity Benefit			
– basic element		(342)	(707)
Employment Support Allowance (Contribution Based)		328,709	339,490
Family benefits			
Maternity Allowance		11,988	12,692
Total	**SoAS8.2**	**2,642,577**	2,599,627

The notes on pages 87 to 161 form part of these accounts.

SoAS3 Non-contributory benefit expenditure (Audited Information)

	2017–18	2016–17
	£'000	£'000
Pension benefits		
Non-contributory retirement pension	4,533	4,343
Christmas bonus	1,615	1,603
Disability allowance		
Attendance allowance	199,346	199,981
Carers allowance	162,059	156,218
Severe disablement allowance	5,605	6,199
Disability living allowance	895,039	1,020,555
Disability working allowance	(6)	(4)
Miscellaneous Diseases Scheme	(2)	(3)
Industrial injuries benefits	29,291	29,419
Income support for the elderly/Pension Credit		
Income support for the elderly	1,183	1,213
Pension Credit	250,502	265,579
Family benefits		
Family credit	–	(38)
Maternity Payments	1,148	1,376
Community Care Grants	–	10,481
Other Fair Value Adjustments and Write Offs – Crisis Loan	1,522	1,685
Income support – non-pensioners and Jobseeker's Allowance		
Income support (non-pensioners)	136,179	151,341
Jobseeker's allowance (income based)	91,506	106,508
Jobseeker's allowance (contribution based)	–	–
Employment Support Allowance (Non-contribution Based)	542,379	505,573
Personal Independence Payment	198,363	16,935
Universal Credit	2,868	–
Total	**2,523,130**	2,478,964

The notes on pages 87 to 161 form part of these accounts.

SoAS4 Statutory benefits (Audited Information)

	2017-18	2016-17
	£'000	£'000
Statutory Sick Pay (SSP)	–	(100)
Statutory Maternity Pay (SMP)	69,200	57,200
Statutory Parental Pay (SPP)	1,300	1,500
Statutory Shared Parental Pay (SSPP)	(900)	1,600
Statutory Adoption Pay (SAP)	600	900
Total	**70,200**	61,100

SoAS5 Other social grants and disbursements (Audited Information)

		2017–18	2016–17
	Note	£'000	£'000
Housing benefit			
Rent rebate	SoAS1	195,956	215,301
Rent allowances	SoAS1	352,855	362,432
Rates	SoAS1	117,644	118,526
Discretionary Housing Payments	**SoAS1**	3,622	3,286
Social Fund disbursements			
Winter fuel and Cold Weather payments		54,077	52,857
Other-fair value adjustments and impairment of debt written off		(3,447)	2,021
Total		**720,707**	754,423

The notes on pages 87 to 161 form part of these accounts.

SoAS6 National Insurance Fund administration (Audited Information)

		2017-18	2016–17
	Note	£'000	£'000
NIF Administration costs incurred by the Department		11,884	12,536
Total	**SoAS8.1 & SoAS11**	**11,884**	12,536

The notes on pages 87 to 161 form part of these accounts.

SoAS7 Programme overheads (Audited Information)

		2017-18	2016–17
	Note	£'000	£'000
Increase in provision for fair value adjustments	SoAS7.1	(8,165)	(3,455)
Programme debt written off	SoAS7.2	17,109	16,559
Other programme overheads		–	–
Total		**8,944**	13,104
Non-contributory programme overheads	4	7,676	11,902
Contributory programme overheads		1,268	1,202
Total		**8,944**	13,104

SoAS7.1 Fair Value Adjustment

The movement in the provision for fair value adjustments consists of a movement in the overpayments of the following benefits and other expenditure:

	2017–18	2016–17
	£'000	£'000
Contributory benefits	(1,197)	(995)
Non-contributory benefits	(3,857)	(4,332)
Social Fund payments	(3,683)	1,761
Other programme	572	111
Total	**(8,165)**	(3,455)

SoAS7.2 Bad debts written off

The bad debts written off consist of the write-off of overpayments of the following benefits and other expenditure:

	2017-18	2016–17
	£'000	£'000
Contributory benefits		
Pension benefits	1,442	1,183
Incapacity benefits	225	327
ESA Contributory	679	553
Other	119	134
Non-contributory benefits		
Disability benefit	2,825	2,522
Income support	1,570	1,966
Pensions	3,833	3,502
ESA Non Contributory	2,992	2,751
Job Seeker's Allowance	740	729
Other	140	162
Social Fund		
Funeral Payments	2,194	2,414
Budgeting Loans	236	260
Other adjustments	114	56
Total	**17,109**	16,559

The notes on pages 87 to 161 form part of these accounts.

SoAS8 Reconciliation of outturn to net operating cost (Audited Information)

SoAS8.1 Reconciliation of net resource outturn to net operating cost

		2017–18			2016–17
	Note	**Outturn £'000**	**Supply Estimate £'000**	**Outturn compared with Estimate £'000**	Outturn £'000
Net Resource Outturn	SoAS1	**4,226,302**	4,396,781	**170,479**	4,220,085
Non-supply Expenditure (net)	SoAS2	2,642,577	2,661,571	18,994	2,599,627
AR not treated as income – funding from NIF to cover administration costs	SoAS6	11,884	11,884	-	12,536
Other Social Fund adjustments		(2,470)	–	2,470	504
Non-supply Income (CFERs)	SoAS10	(3,737)	(1,669)	2,068	(2,051)
Public Corporation Equity Withdrawal		(19,605)	–	19,605	(17,091)
Other		3	–	(3)	(1)
Net Operating Cost		**6,854,954**	**7,068,567**	**213,613**	6,813,609

SoAS8.2 Non-supply expenditure

		2017–18	2016–17
	Note	**£'000**	£'000
Contributory benefits (net)		2,641,309	2,598,425
NIF write-offs and movement on debt provision	SoAS7	1,268	1,202
Total gross non-supply expenditure	**4**	**2,642,577**	2,599,627

The notes on pages 87 to 161 form part of these accounts.

SoAS9 Reconciliation of net resource outturn to net cash requirement (Audited Information)

		2017-18		
	Note	Estimate £'000	Outturn £'000	Net total outturn compared with Estimate saving/ (excess) £'000
Resource Outturn	SoAS1	4,396,781	4,226,302	170,479
Capital:				
Acquisition of property, plant and equipment	6, 7 & 8	14,572	5,179	9,393
Non-operating Accruing Resources:				
Proceeds of fixed asset disposals		(1,103)	(1,179)	76
Repayments of loans from other bodies	11	(1,224)	(1,224)	-
Discretionary Loan Repayments		(13,000)	(11,578)	(1,422)
Public Corporation Equity Withdrawal		(19,605)	(19,605)	-
Other		(16)	-	(16)
Accruals to cash adjustments:				
Adjustments to remove non-cash items:				
Depreciation & Amortisation	3,4	(8,747)	(4,934)	(3,813)
New provisions and adjustments to previous provisions	4	(32,446)	(21,860)	(10,586)
Housing Benefit Owner Occupiers	4	(39,000)	(38,287)	(713)
Other non-cash items	3,4	(35,800)	(31,832)	(3,968)
Adjustments to reflect movements in working balances:				
Changes in working capital other than cash		21,209	(7,320)	28,529
Increase/(decrease) in inventories	13	–	(13)	13
Increase/(decrease) in receivables	15	–	(43,144)	43,144
Increase/(decrease) in payables falling due within one year	16.1	–	56,254	(56,254)
Increase/(decrease) in payables falling due after more than one year	16.2	–	37,177	(37,177)
Use of provision	17	5,983	6,023	(40)
Other Social Fund adjustments	SoAS8.1	–	(2,470)	2,470
Other		–	5	(5)
Net cash requirement		**4,287,604**	**4,147,494**	140,110

The notes on pages 87 to 161 form part of these accounts.

SoAS10 Income payable to the Consolidated Fund (Audited Information)

SoAS10.1 Analysis of income payable to the Consolidated Fund

In addition to Accruing Resources, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics):

		2017-18 Forecast		2017-18 Outturn	
	Note	Income £'000	*Receipts* £'000	Income £'000	*Receipts* £'000
Operating income and receipts – excess Accruing Resources		–	–	-	-
Other operating income and receipts not classified as Accruing Resources		1,669	*1,669*	3,737	*3,824*
Subtotal of operating income and receipts surrenderable to the Consolidated Fund		1,669	*1,669*	3,737	*3,824*
Non-operating income and receipts - excess Accruing Resources	SoAS12	–	–	–	–
Amounts collectable on behalf of the Consolidated Fund		–	–	–	–
Excess cash surrenderable to the Consolidated Fund		–	–	–	–
Total income payable to the Consolidated Fund		**1,669**	***1,669***	**3,737**	***3,824***

The notes on pages 87 to 161 form part of these accounts.

SoAS11 Reconciliation of income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund (Audited Information)

	Note	2017–18 £'000	2016–17 £'000
Operating income	5	132,281	125,361
Profit on disposal of property, plant and equipment		-	-
Public Corporation Equity Withdrawal		(19,605)	(17,091)
NIF Administration Costs	SoAS6	11,884	12,536
Other		4	(3)
Prior Period Adjustment		–	–
Gross Income		124,564	120,803
Income authorised to be Accruing Resource (deduct the lower of AR and Estimate)		(120,827)	(118,752)
Operating Income payable to the Consolidated Fund	**SoAS10**	**3,737**	2,051

SoAS12 Non-operating income - Excess Accruing Resources (Audited Information)

There were no non-operating income - excess Accruing Resources during 2017-18.

The notes on pages 87 to 161 form part of these accounts.

Other Assembly Accountability Disclosures (Audited Information)

i. Regularity of Expenditure (Audited Information)

Issues pertaining to the regularity of departmental expenditure are discussed in the governance statement.

ii. Losses and Special Payments (Audited Information)

	2017-18	2016-17
Losses		
Total number of losses	**45,537**	47,709
Cash losses (£'000)	**21,476**	18,699
Special Payments		
Total number of special payments	**331**	8,696
Total value of special payments (£'000)	**840**	2,265

There were a number of losses in excess of £250,000:

Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) (£2.213 million loss)

This relates to write offs in respect of the Department's NDPB – NILGOSC. NILGOSC administer the Local Government Pension Scheme for over 170 local government employers, referred to as employing authorities. When an employing authority leaves the scheme it is required to meet any liabilities due on cessation.

A loss of £628,568 was approved by DoF and reported in the 2016-17 NILGOSC accounts after the accounts for DfC had been signed.

During the year NILGOSC also sought DoF approval for a further £1,584,457 relating to the unrecoverable cessation debt of two employing authorities.

Forum for Action on Substance Abuse / Suicide Awareness (FASA) (£301k loss)

FASA was a community based professional organisation providing services for those directly or indirectly affected by substance misuse or suicide/self-harm. The Department for Social Development (now DfC) funded FASA for a number of years through the Neighbourhood Renewal Investment Fund. The funding was for front line services in Belfast, and included core posts and overheads that helped support services commissioned under tendered contracts by Health & Social Care Trusts and the Public Health Agency. The organisation had a 'Robust' risk status which required the post payment verification of only one quarter per annum. As FASA entered voluntary insolvency before all payments were made for 2015-16 these checks were never completed and the total expenditure for 2015-16 must therefore be classified as 'bad debt'.

Granite Properties (£281k Special Payment)

The Department paid compensation and legal costs to settle a claim in respect of right of way and access to the base of a 150 foot high former mill brick chimney for scaffolding, should maintenance or repair work be required.

iii. Fees and Charges (Audited Information)

The Department does not administer any fees and charges which are significant in the context of the financial statements.

iv. Remote Contingent Liabilities (Audited Information)

In 2016, the UK Government announced that the Government would guarantee the following EU funded projects after the UK has left the EU:

a. All structural and investment fund projects signed before the Autumn Statement 2016

b. Structural and investment fund projects signed after the Autumn Statement and before we leave the EU, so long as they are good value for money and in line with domestic strategic priorities

c. The payment of awards where UK organisations successfully bid directly to the European Commission on a competitive basis for EU funding projects while we remain in the EU

d. The current level of agricultural funding under CAP Pillar 1 until 2020.

The financial settlement has now been signed-off by both UK and EU Commission negotiators in a draft Withdrawal Agreement and welcomed by the EU-27 at March European Council. The guarantee will therefore only be called in the event that the Withdrawal Agreement is not ratified. As a result, and due to the EU funding the Department for Communities provides, an unquantifiable contingent liability is disclosed.

Contingent liabilities are reported within the financial statements.

LEO O' REILLY
ACCOUNTING OFFICER
25 JUNE 2018

Certificate of the Comptroller and Auditor General to the Northern Ireland Assembly

Department for Communities
The Certificate Of The Comptroller and Auditor General to the Northern Ireland Assembly

Opinion on financial statements

I certify that I have audited the financial statements of the Department for Communities for the year ended 31 March 2018 under the Government Resources and Accounts Act (Northern Ireland) 2001. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Assembly Supply, and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the Department's affairs as at 31 March 2018 and of its net operating expenditure for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance directions issued thereunder.

Qualified opinion on regularity

In my opinion, except for the £108 million of incorrect benefit expenditure attributable to fraud and error as described in the basis of opinions section, in all material respects:

- the Statement of Assembly Supply properly presents the outturn against voted Assembly control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

The regularity opinion has been qualified arising from incorrect benefit awards and payment of fraudulent claims. The total amount paid in benefits is £5.9 billion, of which £2.3 billion relates to expenditure on State Pension which has a low level of fraud and error and on which I have not qualified my opinion on regularity. In respect of the other benefits amounting to £3.6 billion as reported in Note 23 to the financial statements:

- fraud and error resulted in estimated total overpayments of £91 million; and
- estimated underpayments of £17 million arose due to official error.

The Department is required to calculate benefits in accordance with primary legislation which specifies the entitlement criteria for each benefit and the method used to calculate the amount of benefit to be paid. All benefit overpayments are irregular as the expenditure has not been applied in accordance with the purposes intended by the Northern Ireland Assembly and also because fraudulent transactions are by definition irregular since they are without proper authority. In addition underpayments arising because of official error are also irregular as the corresponding transactions have not been processed in accordance with the applicable legislation.

I have therefore qualified my opinion on the regularity of benefit expenditure, other than State Pension, because of the level of overpayments attributable to fraud and error and because of the level of underpayments due to official error, both of which are not in conformity with the relevant authorities.

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of this certificate. My staff and I are independent of the Department for Communities in accordance with the ethical requirements of the Financial Reporting Council's Revised Ethical Standard 2016, and have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinions.

Other Information

The Accounting Officer is responsible for the other information included in the annual report. The other information comprises the information included in the annual report other than the financial statements, the parts of the Accountability Report described in the report as having been audited, and my audit certificate and report. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Department of Finance directions made under the Government Resources and Accounts Act (Northern Ireland) 2001; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001.

I am required to obtain evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website **www.frc.org.uk/auditorsresponsibilities**. This description forms part of my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Assembly Supply properly presents the outturn against voted Assembly control totals and that those totals have not been exceeded. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with the Department of Finance's guidance.

K J Donnelly

KJ DONNELLY
COMPTROLLER AND AUDITOR GENERAL
NORTHERN IRELAND AUDIT OFFICE
106 UNIVERSITY STREET
BELFAST
BT7 1EU
29 JUNE 2018

Financial Statements

Statement of Comprehensive Net Expenditure for the period ended 31 March 2018

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

	Note	2017–18 £'000	2016-17 (Restated) £'000
Income from sale of goods and services	5	–	–
Other income	5	(131,761)	(124,721)
Total Operating Income		**(131,761)**	(124,721)
Staff Costs	3,4	262,894	256,887
Purchase of goods and services	3,4	232,806	184,026
Depreciation and impairment charges	3,4	421	34,515
Provision Expense	4	21,860	25,274
Other Operating Expenditure	3,4	3,826,677	3,838,641
National Insurance Benefits and Non-Voted Expenditure	SoAS2	2,642,577	2,599,627
Total Operating Expenditure		**6,987,235**	6,938,970
Net Operating Expenditure		**6,855,474**	6,814,249
Finance Income	5	(520)	(640)
Finance Expense		–	–
Net Expenditure for the year		**6,854,954**	6,813,609
Other Comprehensive Net Expenditure			
Items that will not be reclassified to net operating costs:			
– Net gain/(loss) on revaluation of Property Plant and Equipment	6	6,358	12,046
– Net gain/(loss) on revaluation of Intangibles	7	204	193
Items that may subsequently be reclassified to net operating costs:			
– Net gain/(loss) on revaluation of assets classified as held for sale	12	(130)	627
Comprehensive Net Expenditure for the year		**6,848,522**	6,800,743

The notes on pages 87 to 161 form part of these accounts

Statement of Financial Position as at 31 March 2018

This statement presents the financial position of the Department for Communities. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

	Note	2017-18 £'000	2016-17 £'000
Non-current assets:			
Property, plant and equipment	6	169,618	163,331
Intangible assets	7	5,190	3,869
Heritage Assets	8	1,286	1,235
Trade and other receivables falling due after more than 1 year	15	315,223	348,279
Financial Assets	11	97,390	95,331
Total non-current assets		**588,707**	612,045
Current assets:			
Assets classified as held for sale	12	657	1,904
Inventories	13	123	136
Trade and other receivables	15	186,201	196,289
Financial Assets	11	1,211	1,220
Cash and cash equivalents	14	37	699
Total current assets		**188,229**	200,248
Total assets		**776,936**	812,293
Current liabilities:			
Trade and other payables (amounts falling due within one year)	16	(246,699)	(302,953)
Provisions	17	(17,994)	(7,749)
Total current liabilities		(264,693)	(310,702)
Non current assets plus/less net current assets/liabilities		**512,243**	501,591

	Note	2017-18 £'000	2016-17 £'000
Non-current liabilities			
Trade and other payables (amounts falling due after more than one year)	16	(218,005)	(255,182)
Provisions	17	(239,154)	(233,562)
Total non-current liabilities		(457,159)	(488,744)
Assets less liabilities		**55,084**	12,847
Taxpayers' equity & other reserves:			
General fund		(24,369)	(62,493)
Revaluation reserve		79,453	75,340
Total Equity		**55,084**	12,847

The notes on pages 87 to 161 form part of these accounts.

Leo O'Reilly

LEO O' REILLY
ACCOUNTING OFFICER
25 JUNE 2018

Statement of Cash Flows for the period ended 31 March 2018

The Statement of Cash Flows shows the changes in cash and cash equivalents of the Department during the reporting period. The statement shows how the Department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the Department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the Departments' future public service delivery. Cash flows arising from financing activities include Assembly Supply and other cash flows, including borrowing.

	Note	**2017-18 £'000**	2016-17 £'000
Cash flows from operating activities			
Net operating expenditure	SoCNE	(6,854,954)	(6,813,609)
Adjustments for non-cash transactions	3,4	96,913	127,557
(Increase)/Decrease in trade and other receivables	15	43,144	54,954
less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure	*15*	3,658	253
(Increase)/Decrease in inventories	13	13	(30)
Increase/(Decrease) in trade and other payables	16	(93,431)	(55,608)
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure	*16*	(1,294)	(1,966)
Use of provisions	17	(6,023)	(5,382)
Adjustment to Net Operating Profit		2	231
Net cash (outflow) from operating activities		**(6,811,972)**	(6,693,600)
Cash flows from investing activities			
Purchase of non financial assets	6,7,8	(5,179)	(7,824)
Proceeds of disposal of non financial assets		1,179	405
Proceeds of disposal of assets held for resale	12	-	-
Loans to other bodies	11	-	(5,502)
Repayments from other bodies	11	1,224	1,307
Movement in receivables/payables for capital		(1,001)	1,551
Net cash outflow from investing activities		**(3,777)**	(10,063)

	Note	**2017-18 £'000**	2016-17 £'000
Cash flows from financing activities			
From the Consolidated Fund (Supply) - relating to the current year		4,149,790	4,093,408
From the Consolidated Fund (Supply) - relating to the prior year		(4,784)	(1,348)
From the Social Fund		-	-
Net Financing from the National Insurance Fund		14,744	4,682
Net financing		4,159,750	4,096,742
Payments to the National Insurance Fund		2,654,461	2,612,163
Net increase/(decrease) in cash and cash equivalents in the year before adjustment for receipts and payments to the Consolidated Fund		**(1,538)**	5,242
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		(7)	-
Payments of amounts due to the Consolidated Fund		(1,728)	(3,086)
Net increase/(decrease) in cash and cash equivalents in the year after adjustment for receipts and payments to the Consolidated Fund	14	**(3,273)**	2,156
Cash and cash equivalents at the beginning of the period	14	**699**	(1,457)
Cash and cash equivalents at the end of the period	14	**(2,574)**	699

The notes on pages 87 to 161 form part of these accounts.

Statement of Changes in Taxpayers' Equity

This statement shows the movement in the year on the different reserves held by the Department for Communities, analysed into 'general fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). Financing and the balance from the provision of services are recorded here. The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. Other earmarked reserves are shown separately where there are statutory restrictions of their use.

	Note	General Fund £'000	Revaluation Reserve £'000	Taxpayers' Equity £'000
Balance at 1 April 2016		(28,457)	65,067	36,610
Net Assembly Funding - drawn down		4,093,408	–	4,093,408
Net funding from the National Insurance Fund in year		2,616,845	–	2,616,845
Supply (payable)/receivable adjustment	15 & 16	(4,784)	–	(4,784)
CFERs Income payable to the Consolidated Fund		(2,051)	–	(2,051)
Release of reserves to the Statement of Comprehensive Net Expenditure	4	(24)	–	(24)
Comprehensive Net Expenditure for the year	SoCNE	(6,813,609)	–	(6,813,609)
Non-Cash Adjustments:				
Non-cash charges - auditor's remuneration	3	261	–	261
Non-cash charges - other	3,4	72,544	–	72,544
Movement in National Insurance Fund		763	–	763
Movements in Reserves				
Transfers between reserves		2,551	(2,545)	6
Movements in Reserves		–	12,818	12,818
Other		60	–	60
Balance at 31 March 2017		**(62,493)**	**75,340**	**12,847**

	Note	General Fund £'000	Revaluation Reserve £'000	Taxpayers' Equity £'000
Balance at 31 March 2017		**(62,493)**	**75,340**	**12,847**
Net Assembly Funding - drawn down		4,149,789	–	4,149,789
Net funding from the National Insurance Fund in year		2,669,205	–	2,669,205
Supply (payable)/receivable adjustment	15 & 16	(2,295)	–	(2,295)
CFER Income payable to the Consolidated Fund	SoAS10	(3,737)	–	(3,737)
Release of reserves to the Statement of Comprehensive Net Expenditure	4	(43)	–	(43)
Comprehensive Net Expenditure for the year	SoCNE	(6,854,954)	–	(6,854,954)
Non-Cash Adjustments:				
Non-cash charges - auditor's remuneration	3	251	–	251
Non-cash charges - other	3,4	74,100	–	74,100
Movement in National Insurance Fund		3,496	–	3,496
Movements in Reserves				
Transfers between reserves		2,326	(2,326)	-
Movements in Reserves		–	6,430	6,430
Other		(14)	9	(5)
Balance at 31 March 2018		**(24,369)**	**79,453**	**55,084**

The notes on pages 87 to 161 form part of these accounts.

Notes to the financial statements for the year ended 31 March 2018

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2017-18 *Government Financial Reporting Manual (FReM)* issued by the Department of Finance. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRSs) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Department are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires the Department to prepare one additional primary statement. *The Statement of Assembly Supply* and supporting notes show outturn against estimate in terms of the net resource requirement and the net cash requirement.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of investment property, property, plant and equipment, intangible assets, inventories and certain financial assets and liabilities.

Management has reviewed new accounting standards that have been issued but are not yet effective, nor adopted early for these accounts. Management considers that the impact of the introduction of IFRS 16 Leases is likely to be significant. This is due to be implemented in the FReM in 2019-20. IFRS 16 represents a significant change in lessee accounting by largely removing the distinction between operating and finance leases and introducing a single lessee accounting model. A lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value on the Statement of Financial Position. There are corresponding changes to the disclosure requirements to show the effect that leases have on the financial position, financial performance and cash flows of the lessee. The Department currently has a large operating lease which is not on the Statement of Financial Position but will be required to come on after implementation. It is not possible to quantify the effect at this time.

The IASB issued new and amended standards (IFRS 10, IFRS 11 & IFRS 12) that affect the consolidation and reporting of subsidiaries, associates and joint ventures. These standards were effective with EU adoption from 1 January 2014.

Accounting boundary IFRS are currently adapted in the FReM so that the Westminster departmental accounting boundary is based on ONS control criteria, as designated by Treasury. A similar review in NI, which will bring NI departments under the same adaptation, has been carried out and the resulting recommendations were agreed by the

Executive in December 2016. With effect from 2020-21, the accounting boundary for departments will change and there will also be an impact on departments around the disclosure requirements under IFRS 12. ALBs apply IFRS in full and their consolidation boundary may have changed as a result of the new Standards.

1.2 Basis of Consolidation

These accounts comprise a consolidation of the Department and those entities which fall within the departmental boundary as defined in the FReM, interpreted for Northern Ireland.

The Social Fund is consolidated within the primary statements and the cash grant to the Social Fund is included in the summary of resource outturn. Although elements of the National Insurance Fund are included in the Consolidated Statement of Comprehensive Net Expenditure, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows, they are excluded from the Summary of Resource Outturn and Statement of Assembly Supply (SoAS). They are also excluded from all SoAS notes.

The National Insurance Fund is the responsibility of HM Revenue and Customs. This expenditure is for contributory benefits, all administration costs and their related assets and liabilities.

This consolidation boundary ensures that all items which fall within the Department's expenditure are reflected in the Statement of Comprehensive Net Expenditure, whereas the Summary of Resource Outturn reflects only those items which fall within the supply process.

Separate White Paper accounts are produced for the Social Fund and the National Insurance Fund.

A full list of bodies and funds consolidated within the accounts is given in Note 25.

1.3 Property, Plant and Equipment and Intangible Assets

Expenditure on property, plant and equipment of over £1,000 is capitalised, with the exception of property improvements, cabling, software and licences, which is capitalised if expenditure is over £5,000. All personal computer equipment under the threshold of £1,000 is charged as an operating expense.

Externally and internally developed computer software costing greater than the £5,000 captilisation threshold is classified as non-current intangible assets. Internally developed computer software is capitalised if it meets the criteria in IAS 38 Intangible Assets. Where appropriate, costs are classified as assets under construction until the asset is available for use when the asset is then transferred to its relevant asset class. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Costs associated with the maintenance of software are also recognised as an expense when incurred.

On initial recognition property, plant and equipment and intangible assets are measured at cost including any expenditure, such as installation, directly attributable to bringing them into working condition.

All property, plant and equipment and intangible assets are carried at fair value. December 2017 indices were applied.

Land and buildings are carried at the last professional valuation, in accordance with the Appraisal and Valuation Manual produced jointly by the Royal Institute of Chartered Surveyors, the Incorporated Society of Valuers and Auctioneers and the Institute of Revenues Rating and Valuation. Professional revaluations of land and buildings are undertaken every five years, with an interim valuation performed in the third year of every five-year cycle. A valuation of the majority of land and buildings was undertaken by Land and Property Services as at 1 April 2015. They are revalued annually, between professional valuations, using indices and desk top valuations provided by Land and Property Services, an executive agency within the Department of Finance. The revaluations for the 2017-18 financial year were based on indices applicable at 31 December 2017. Some buildings had an actual valuation at this date, for example, House of Sport and PRONI.

Properties are valued on the basis of open market value existing use, unless they are specialised, in which case they are valued on the basis of depreciated replacement cost. Properties surplus to requirements are valued on the basis of open market value less any material directly attributable selling costs. Land and buildings at Titanic Quarter housing PRONI have been treated as specialised.

The new towns development lands in Craigavon, Ballymena and Antrim have been on the books of the Department (and before it, the Department of the Environment) for in excess of 50 years and, although not the original intention, are currently held for rental under a piecemeal programme of disposal, economic conditions permitting (so as not to adversely affect the property markets in those areas).

Title

Title to the freehold land and buildings shown in the accounts is held as follows:

(i) Property on the departmental estate, title to which is held by the Department for Communities; and

(ii) Property held by the Department of Finance, which is in the name of the Secretary of State for Northern Ireland.

With the exception of the above and items under construction, fair value is estimated by restating the value annually by reference to indices compiled by the Office of National Statistics.

Infrastructure assets are costs associated with the Laganside weir and riverside walkways which consist of fees for design and investigation, certified construction costs and also compensation paid to landowners for loss of use of land and, in the case of the weir, the river bed. These are valued annually in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors (RICS) by the Land and Property Services. Properties which due to their specialised nature are rarely, if ever, sold on the open market for single occupation for a continuation of their existing use, have been valued on a depreciated replacement cost (DRC) basis. Properties which are in operational use for the purposes of the Department's business have been valued on an existing use value (EUV) basis.

Twenty-six pieces of public art were transferred to the Department upon the winding up of the Laganside Corporation. The pieces include cast iron figures, sculptured brick monuments, tiled and fabric wall murals and bronze and stainless steel statues. They include works as diverse as the Big Fish at Donegall Quay and the Bottle Top at the railway bridge at Gasworks Link and can be viewed under 'Laganside Art Trails' on the Department's website. They are managed by the Department's Belfast City Centre Regeneration Directorate.

Since the Department does not generally purchase or acquire works of art, information as to their current value is not readily obtainable at a cost commensurate with the benefits to users of the financial statements. These assets are therefore not included in the Statement of Financial Position.

Heritage Assets
All heritage assets are deemed to be held by the Department in pursuit of its overall objectives in relation to the maintenance of heritage. Non-operational heritage assets are those which are held solely for this purpose and have no other use. Operational heritage assets are those which, in addition to being held for their heritage characteristics, are also used by the entity for other activities or to provide other services for which it is responsible. Heritage lands are subject to professional valuations and annual revaluations in accordance with the Appraisal and Valuation Manual produced jointly by the Royal Institute of Chartered Surveyors (RICS), the Incorporated Society of Valuers and Auctioneers (ISVA) and the Institute of Revenues Rating and Valuation (IRRV). Professional revaluations of heritage land are undertaken every five years, and a full valuation is currently being undertaken by Land and Property Services (LPS).
(An exception to this is some land at Dunluce Castle containing an archaeological site, which is not revalued and is on the departmental asset register at a value of £158,400).

Non-operational heritage assets which have not been purchased have no valuation placed on them as it is not possible to provide a robust valuation for them. These include the official records stored and maintained by PRONI and private records donated to PRONI as well as state care monuments. Where heritage assets are purchased, this is done for their long term protection by the state.

On initial recognition the assets are recognised at cost. Upwards revaluations of heritage assets are credited to the revaluation reserve unless they reverse previously recognised downward revaluation in which case they are credited to the Statement of Comprehensive Net Expenditure to the extent the downward revaluation has been recognised with the remainder credited to the revaluation reserve. Downward revaluations of heritage assets are debited to the revaluation reserve to the extent that they reverse previously recognised upward revaluations with any remaining downward valuation recognised in the Statement of Comprehensive Net Expenditure.

Various State Care monuments throughout Northern Ireland are also the property of the Department. These monuments have been acquired by a variety of means, including inherited under the National Monuments Order 1880, properties previously vested in the county councils which were transferred to the Department under the Historic Monuments (Transfer) Order (NI)1973 and others are held in guardianship by the

Department. The monuments are protected by the Department under the Historic Monument and Archaeological Objects (NI) Order 1995.

1.4 Depreciation and amortisation

Property, plant and equipment and intangible assets are depreciated and amortised at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Depreciation/amortisation is charged when an asset is available for use, and not in the month of disposal.

No depreciation is provided on freehold land, infrastructure assets or antique collections since they have unlimited or very long-established useful lives. Items under construction are not depreciated until they are commissioned. Properties that are surplus to requirements and not in use are not depreciated. Capital expenditure on leasehold improvements is depreciated over the remaining term of the lease.

Asset lives are normally in the following ranges:

Asset Type	Asset Life
Freehold buildings	Up to 100 years
Leasehold property	Lease period remaining
Furniture and fittings	10-20 years
Infrastructure Assets	Up to 100 years
Computer equipment	3–10 years
Other equipment	3–25 years
Motor Vehicles	3–7 years

The overall useful life of the Department's buildings takes account of the fact that different components of those buildings have different useful lives. This ensures that depreciation is charged on these assets at the same rate as if separate components had been identified and depreciated at different rates.

The majority of furniture and fittings are rented from the Department of Finance and have not been capitalised. Instead, this forms part of the notional accommodation costs included in the Statement of Comprehensive Net Expenditure.

Most of the buildings used by the Department are part of the government estate. As rents are not paid for these properties, notional accommodation costs are based on a capital charge for the properties. These costs have been charged to the Statement of Comprehensive Net Expenditure.

In some cases the Department has carried out improvement work to these properties. Where the amount exceeds the capitalisation threshold the expenditure is treated as capital.

1.5 Non-Current Assets Held for Resale

The Department classifies a non-current asset as held for sale where its value is expected to be realised principally through a sale transaction rather than through continuing use. In order to meet this definition, International Financial Reporting Standard 5 requires that the asset must be immediately available for sale in its current condition and that its sale is highly probable. A sale is regarded as highly probable where an active plan is in place to find a buyer for the asset through appropriate marketing at a reasonable price and the sale is considered likely to be concluded within one year. Non-current assets held for sale are valued on the basis of open market value less any material directly attributable selling costs.

1.6 Investment and Loans in other Public Sector Bodies - Loans to Housing Associations

The loan stock is valued at cost, which is considered to be a close approximation of the market value (see Note 11).

1.7 Vesting of land

In certain instances, the Department will vest property with the intention of facilitating urban regeneration. In such circumstances the Department assumes ownership from the date when the vesting order becomes operative. The property is capitalised at its Land and Property Service valuation.

The estimated compensation payments payable to the owner of the vested property are provided for in the period in which the vesting order becomes operative.

1.8 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the Department, the asset is recorded as property, plant and equipment and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Statement of Comprehensive Net Expenditure over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the term of the lease.

1.9 Service Concession Arrangements

Service concession arrangement transactions have been accounted for in accordance with International Financial Reporting Interpretations Committee 12 (IFRIC 12), as required by the Government Financial Reporting Manual. Where the government body controls the use of the asset and the residual interest in the asset at the end of the arrangement, the Department does not have any assets to recognise within the contract period. The service charges are recorded as an operating cost (Note 4).

1.10 Inventories

Inventories are stated at the lower of cost and net realisable value. PRONI and HED's depot stocks were valued at 31 March 2018.

1.11 Cash and Cash Equivalents

Due to funding requirements it is departmental policy to hold and manage centrally all operational bank accounts. The total of the centrally held bank balances is disclosed in these accounts.

Cash in transit - the Central Payment System (CPS) processes benefit payments to customers' bank accounts through the Bank Automated Clearing System (BACS) and this process normally takes approximately three working days to complete.

The CPS accounts for the benefit expenditure on the first day of the BACS payment cycle i.e. BACS Day 1, although the payment amount does not transfer to the customer's bank account until BACS Day 3. The two day difference in the recording of the expenditure and the movement of the funds to make the payments creates a payables balance within CPS known as the 'Cash in Transit' balance. The Cash in Transit (CIT) balance represents purely a timing difference between the transactions that take place on BACS Day 1 and BACS Day 3. The CIT balance is included within Note 16 - trade payables and other current liabilities.

1.12 Operating income

Operating income is income which relates directly to the operating activities of the Department. It principally comprises fees and charges for services provided on a full cost basis to external customers as well as public repayment work but also includes other income, such as that from investments. It includes income classified as accruing resources, as well as income due to the Consolidated Fund, which in accordance with the Government Financial Reporting Manual, is treated as operating income. Operating income is stated net of VAT. It excludes accruing resources and Consolidated Fund extra receipts treated as capital. Receipts under EU Peace and Reconciliation Programme or other EU initiatives are also treated as operating income.

1.13 Administration and Programme Expenditure

The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

Administration costs reflect the costs of running the Department and its non-executive non-departmental public bodies. These include both those administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit and that operating income which is not.

Programme costs reflect non-administration costs, including payments of grants and other disbursements by the Department, as well as certain staff costs where they relate directly to service delivery.

Social security programme expenditure also comprises statutory payments, including contributory benefit expenditure, which is funded from the National Insurance Fund and expenditure which is borne by the Social Fund in addition to the programme expenditure which is within the supply process.

Separate White Paper accounts are produced for both the NI National Insurance Fund (by HMRC) and Social Fund expenditure (by the Department).

1.14 Employee Benefits including Pensions
Under the requirements of International Accounting Standard 19 'Employee Benefits', staff costs must be recorded as an expense as soon as the organisation is obligated to pay them. This includes the cost of any untaken leave that has been earned at the year end.

The employee benefit accrual is based on information from the HR Connect payroll system. The accrual is calculated based on the actual leave amount outstanding per employee as at 31 March 2018, multiplied by the actual staff salary rate. Employers' National Insurance costs at 13.8% and employers' pension at 23.3% are added to this amount to provide the total employee benefit accrual figure for the financial year end.

Details of the departmental pension schemes are provided in the remuneration report in the annual report.

1.15 Grants Payable
Grants payable are recorded as expenditure in the period in which the underlying event or activity giving entitlement to the grant occurs, in so far as it is practicable to do so. Grants in aid, deficit grants and payments to other public bodies which operate grant schemes are expensed in the period in which the payments are made. Grant expenditure incurred and claimed by recipients but unpaid by the Department by the year end is accrued, as is grant expenditure incurred by the recipient before the year end but not claimed until after the year end. An accrual is also made for grant expenditure incurred by the recipient before the year end where the Department has been notified of the amount of the claim but the claim has not yet been submitted. Any future amounts payable under European Union letters of offer are disclosed as commitments. Overpayments of grants are shown as trade receivables.

Housing association grants may be repayable to the Department on the sale of housing properties and land. In addition, most grants provided by Urban Regeneration Division contain a provision within the letter of offer for clawback of the grant in particular circumstances. The amount of the repayment that is known with reasonable certainty is included within trade receivables (Note 15).

1.16 Contingent Liabilities
In addition to contingent liabilities disclosed in accordance with International Accounting Standard 37, the Department discloses for Assembly reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to the Northern Ireland Assembly in accordance with the requirements of **Managing Public Money Northern Ireland.**

These comprise:

a. items over £250,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to the Northern Ireland Assembly by departmental Minute prior to the Department entering into the arrangement; and

b. all items (whether or not they arise in the normal course of business) over £250,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the Government Financial Reporting Manual to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under International Accounting Standard 37 are stated at discounted amounts and the amount reported to the Northern Ireland Assembly separately noted. Contingent liabilities that are not required to be disclosed by International Accounting Standard 37 are stated at the amounts reported to the Northern Ireland Assembly.

1.17 Provisions

The Department provides for legal or constructive obligations which are of uncertain timing or amount at the statement of financial position date on the basis of the best estimate of the expenditure required to settle the obligation where this can be determined. This relates to early retirement costs, superannuation contributions, potential legal actions and provision for future liabilities in respect of contracts. Where the effect of the time value of money is significant the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury. This is currently:

Years	Percentage
1 - 5	(2.42)
5 - 10	(1.85)
Greater than 10	(1.56)

1.18 Value Added Tax

Where output VAT is charged or input VAT is recoverable, the amounts are stated net of VAT. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. VAT is recoverable on a departmental basis in line with the provisions applicable to government bodies in NI.

1.19 Third Party Assets

The Child Maintenance Service operates a client funds account to control the receipt of child maintenance and fees from non-resident parents and parents with care. Child maintenance and fees are collected and paid over respectively to persons with care or to the Department (maintenance and fees). These are not departmental assets and are not included in the Statement of Financial Position.

The Department administers a Central Investment Fund for Charities into which Northern Ireland charities invest funds and a Charitable Donations and Bequests Fund. These are not departmental funds and are not consolidated within the departmental accounts. Dividends are paid twice yearly by the Department.

1.20 National Insurance Fund (NIF)
As stated in Note 1.2, the NI National Insurance Fund is excluded from the consolidation. However, contributory benefits funded from the National Insurance Fund and the costs to the Department of administering the National Insurance Fund are included in the Statement of Comprehensive Net Expenditure. The NI National Insurance Fund provides financing to the Department to cover this contributory benefit expenditure and the administration costs incurred by the Department. The financing from the NI National Insurance Fund shown in the Consolidated Statement of Cash Flows is the net financing due to the Department. Any difference between the net financing due to the Department and the net financing received from the NI National Insurance Fund will be reflected in the current account maintained between the Department and the NI National Insurance Fund/HMRC (See Notes 15 and 16).

1.21 Early departure costs
The Department is required to meet the additional cost of benefits beyond the normal Principal Civil Service Pension Scheme benefits in respect of employees who retire early. The Department provides in full for this cost when the early retirement programme has been announced and this is binding on the Department.

1.22 EU income
All receipts from the EU are separately identified and shown as income in the Statement of Comprehensive Net Expenditure. A distinction is made between receipts earned by the Department on infrastructure development which are paid over to the consolidated fund and receipts in support of departmental grant schemes which are netted off the cost of the schemes. All EU income is treated by the Department as non-public expenditure and thereby reduces the burden on the UK exchequer.

1.23 Funding from Assembly vote
Vote funding is not treated as income on the face of the Statement of Comprehensive Net Expenditure, instead cash voted and drawn down is credited to the general fund.

1.24 Provision of agency services
The Department provides agency services to the Department for Work and Pensions in administering the Belfast Child Maintenance Service Centre and the Belfast Benefit Delivery Centre. The direct cash costs incurred in operating these centres are recovered in full from the Department for Work and Pensions.

The expenditure in relation to these services is reported as programme costs in the Statement of Comprehensive Net Expenditure with the related accruing resources treated as operating income.

1.25 Derivatives and Other Financial Instruments
A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A financial instrument is recognised when, and only when, the entity becomes a party to the contractual provisions of the instrument. A previously recognised financial asset is derecognised when, and only when, either the contractual rights to the cash flows from that asset expire, or the entity transfers the asset such that the transfer qualified for derecognition. A financial liability is derecognised when, and only when, it is extinguished.

Financial instruments are initially recognised at fair value unless otherwise stated. Fair value is the amount at which such an instrument could be exchanged in an arm's length transaction between informed and willing parties.

Financial instruments are subsequently carried at amortised cost using the effective interest method, with changes in value recognised in the Statement of Comprehensive Net Expenditure in the line which most appropriately reflects the nature of the item or transaction.

The following are the key accounting policies used to reflect the adoption of financial instruments under relevant Financial Reporting Standards (International Accounting Standard 32, International Accounting Standard 39 and International Financial Reporting Standards 7 and 13).

The Department assesses at each statement of financial position date whether there is objective evidence that financial assets are impaired as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the statement of financial position date and whether such events have had an impact on the estimated future cash flows of the financial instrument and can be reliably estimated. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account the type of instrument and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the terms of the asset being evaluated.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Future cash flows for a group of financial instruments that are collectively evaluated for impairment are estimated on the basis of expected cash flows for the assets and historical loss experience for assets with credit risk characteristics similar to those in the group.

Interest determined, impairment losses and translation differences on monetary items are recognised in the Statement of Comprehensive Net Expenditure.

More detail on the Department's Financial Instruments is provided in Note 10.

1.26 Benefit Overpayment Receivables
Benefit overpayment receivables arise when a benefit overpayment occurs. The gross benefit receivable amount recognised in the Statement of Financial Position is valued at the difference between the amount paid to the customer by the Department and the actual benefit entitlement due. The value is communicated in writing to the customer and the Department regards this letter as evidence to support the valuation and existence of the debt.

Benefit payments are accounted for as programme expenditure in the year in which they are made. The receivable recognised is accounted for as a reduction to programme expenditure in the year in which it is recognised.

Benefit overpayments arising as a result of customer fraud or error are recoverable. The value of the recoverable overpayment is communicated to the customer in writing and the customer is advised in the letter of their right to appeal the Department's decision.

Benefit overpayments arising as a result of official error have no statutory right of recovery. These are recognised and written off simultaneously.

However payments of Universal Credit, paid in excess of entitlement are legally considered a recoverable overpayment; this includes official error overpayments.

Benefit overpayment receivables write off policy has been agreed with the Department of Finance (DoF). To ensure it is applied consistently, detailed guidance is given in the Departmental Discretion Guide and Managing Public Money Northern Ireland. In accordance with the write-off policy, the Department may write off benefit overpayment receivables because:

- the case satisfies the criteria for waiver; or
- the debtor is deceased and there is insufficient estate to recover the debt.

The Department undertakes management reviews on the quality and consistency of write-off decisions through periodic management and quality assurance checks.

The Benefit Overpayment Receivable balance is assessed at the end of each accounting period and reduced to its estimated recoverable amount through making an impairment based on forecast cash and benefit deduction recoveries. In addition, the Department includes impairment in respect of an element of benefit overpayment receivables that could be subject to challenge and consequently written off. A discount factor of (0.8%) is also applied to the benefit receivables balance at the end of the accounting period to estimate the present value of cash flows (2016-17: (0.8%)).

Housing Benefit for tenants in the public and private rented sectors is administered by the Northern Ireland Housing Executive. Similar policies and procedures to those used by the Department are used by the Housing Executive for the purposes of recovering Housing Benefit overpayments.

Housing Benefit for owner occupiers is fully administered by Land and Property Services.

The Department provides guidance to the Housing Executive on overpayment recovery policy and legislation and monitors performance against overpayment recovery targets.

1.27 Estimation Techniques
Fair Value Adjustment:

(I) The fair value adjustment of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction between knowledgeable willing parties. Where the classification of a financial instrument requires it to be stated at fair value, fair value is determined using expected cash flows discounted back to present value and an estimated impairment for the element of the receivable balance that could be written off.

(II)The fair value adjustment for payments made to the Department in respect of the Compensation Recovery Scheme (CRS) is based on likely future write-offs and is calculated on a case by case basis.

The fair value adjustment is not disclosed within the trade receivables note. However, the fair value adjustment relating to financial instruments is detailed in Note 10.

Benefit Overpayment Receivables:
The estimation technique employed in the calculation of benefit overpayment receivables is disclosed in Note 1.26.

Employee Benefits:
The estimation technique employed in the calculation of employee benefits is disclosed in Note 1.14.

Provisions:
The estimation technique employed in the calculation of provisions is disclosed in Note 1.17.

NHS Trusts' balance
An exercise is completed each year by the Department's Compensation Recovery Unit (CRU) to estimate the potential value of those claims awaiting settlement from the insurance companies and due to the Health Service Trusts (HST). The CRU collects the monies due from the insurance companies on behalf of the HST and those amounts are then forwarded to the Trusts themselves. The CRU estimate is based on the number of claims outstanding and the associated medical costs applicable to each claim.

1.28 Deferred Income
Deferred income of £2.635 million includes the cost of decontamination work at Fort George army barracks (Note 16). The former Department for Social Development (DSD) acquired the Fort George site from the Londonderry Port and Harbour Commissioners (LPHC) in 2004, having been on leasehold to the Ministry of Defence (MoD). The Department received an indemnity from the MoD to meet the cost for decontamination.

In 2010-11 the MoD made an offer to DSD for £3.2 million in exchange for the formal release and legal cancellation of the existing indemnities against the MoD. The Department accepted the offer and the decontamination project commenced in 2010-11, with income being released as expenditure is incurred.It is expected to be completed in 2018-19.

2. Statement of Operating Costs by Operating Segment

		2017-18				
	Note	**SP&RG £'000**	**HUR&LGG £'000**	**ECG £'000**	**W&IG £'000**	**Total £'000**
Gross Expenditure		880,336	436,684	139,456	5,530,759	6,987,235
Income		(582)	(71,372)	(2,826)	(57,501)	(132,281)
Net Expenditure	**SOCNE**	**879,754**	**365,312**	**136,630**	**5,473,258**	**6,854,954**
Total Assets		**(31,197)**	**493,620**	**89,490**	**225,023**	**776,936**

		2016-17				
	Note	SP&RG £'000	HUR&LGG £'000	ECG £'000	W&IG £'000	Total £'000
Gross Expenditure		957,124	449,699	120,937	5,411,210	6,938,970
Income		(899)	(73,577)	(586)	(50,299)	(125,361)
Net Expenditure	**SOCNE**	956,225	376,122	120,351	5,360,911	6,813,609
Total Assets		(79,648)	563,178	103,881	224,882	812,293

Strategic Planning & Resources Group (SP&RG)

Delivering high quality corporate services to the Department for Communities including finance, contract and debt management, business planning, governance, personnel and estate management.

Housing, Urban Regeneration & Local Government Group (HUR&LGG)

Providing decent, affordable, sustainable homes and housing support, creating urban centres which help bring divided communities together and to setting policy and legislative framework for local government and NI social policy.

Engaged Communities Group (ECG)

Delivering good policy and services to the voluntary and community sectors, across the culture, arts and leisure functions and in relation to stewardship of the historic environment.

Work & Inclusion Group (W&IG)

Promoting work, wellbeing and fairness by helping people to find work; helping people to stay in work and making work pay; providing a fair and sustainable pension system; protecting public money by reducing fraud and error; and paying more money to more children through the Child Maintenance Service.

Any transactions between the reportable segments are eliminated upon consolidation of the accounts. The activities of the reportable segments are reported both indivually and collectively to senior management. None of the reportable segments has any reliance on major customers.

3. Other Administration Costs

	Note	**2017-18 £'000**	2016-17 £'000
Staff Costs[1]			
Wages and salaries		26,489	27,065
Social security costs		2,655	2,674
Other pension costs		6,015	6,025
Contracted services		9,655	8,138
Accommodation costs		1,487	1,685
Early Departure Costs		775	–
Travel and subsistence		500	1,669
Management consultancy		334	483
Advertising & Publicity		273	50
Telecom		266	207
Legal and Other Professional Costs		214	354
Computer and office running costs		235	236
Other expenditure		1,518	2,184
Non-cash items:			
Depreciation	6	320	220
Amortisation	7	173	104
Impairment/Revaluation of administration property, plant and equipment		–	(1)
Loss on disposal of administration property, plant and equipment		–	–
Profit on disposal of administration property, plant and equipment		–	(11)
Notional costs:			
Accommodation costs		20,260	22,679
Other indirect charges and services		15,553	10,659
Auditor's remuneration and expenses	3a	251	261
Total		**86,973**	**84,681**

[1] Further analysis of staff costs is located in the Staff Report on page 48.

3a The audit fee represents the cost for the audit of the financial statements carried out by the Comptroller & Auditor General.

There was no remuneration paid for non-audit work during the year.

4. Programme Costs

	Note	**2017-18 £'000**	2016-17 £'000
Staff Costs[1]			
Wages and salaries		180,104	172,248
Social security costs		14,230	14,574
Other pension costs		33,401	34,301
Grants and other current expenditure		3,819,001	3,826,739
Non-contributory programme overheads	SoAS7	7,676	11,902
Non-supply expenditure: contributory benefits	SoAS2	2,642,577	2,599,627
Supplementary payments		53,365	8,444
Discretionary payments		6,752	2,156
Contracted services		59,880	50,385
Accommodation costs		8,580	8,334
Medical adjudication		(8,241)	7,381
Card Account		3,642	4,251
Legal and Other Professional Costs		3,501	3,664
Postage		2,574	2,139
Travel and subsistence		1,522	1,303
Computer and office running costs		3,460	1,009
Telecommunications		518	493
Printing and stationery		859	908
Management consultancy		1,004	772
Managed Services		1,941	1,208
Other programme costs		3,560	3,847

[1] Further analysis of staff costs is located in the Staff Report on page 48.

4. Programme Costs (continued)

	Note	**2017-18 £'000**	2016-17 £'000
Non-cash items:			
Depreciation	6	3,371	3,970
Amortisation	7	1,070	290
Impairment/Revaluation of programme property, plant and equipment		(1,239)	11,184
Discounting/Impairment on NICHA Financial Transactions Capital Funding		(2,195)	13,573
Discounting/Impairment on Housing Loans		(1,079)	5,175
Loss on disposal of programme property, plant and equipment		1,501	10
Profit on disposal of programme property, plant and equipment		(1,177)	(12)
Movement in programme provisions	17	21,860	25,274
Housing Benefit Owner Occupiers		38,287	39,164
Release from General Fund in respect of GB capital items		(43)	(24)
Total		**6,900,262**	6,854,289

5. Income

Operating income is as follows:

	Note	**2017–18 Total £'000**	2016–17 Total £'000
Recoveries from DWP		56,483	49,677
Interest Reimbursement from NIHE		25,344	29,406
NIHE House Sales		19,605	17,091
Housing Association Grant recoverable		20,826	18,639
EU receipts		16	-
Syrian Refugee Project		3,726	1,355
Consolidated Fund Extra Receipts		3,217	1,427
Interest receivable		520	640
Proceeds on disposal of assets held for resale		–	–
Recoveries of secondees' costs		315	427
2012 Child Maintenance Service		557	330
Recreation Income - Admission charges		438	311
Other		1,234	6,058
Total	SoAS11	**132,281**	125,361

6. Property, plant and equipment

2017-18	Land £'000	Buildings £'000	Infrastructure Assets £'000	Information Technology £'000	Plant & Machinery £'000	Furniture & Fittings £'000	Transport Equipment £'000	Payments on A/c & Assets under Construction £'000	Total £'000
Cost or valuation									
At 1 April 2017	67,274	52,041	52,041	1,419	1,063	6,494	868	561	181,761
Adjustments to opening balances	–	(1)	–	–	–	–	–	–	(1)
Additions	868	11	61	–	20	1,494	–	316	2,770
Transfers in	–	–	–	–	–	–	–	–	–
Donations	–	–	–	–	–	–	–	–	–
Disposals	(486)	(610)	–	(444)	(12)	(407)	(42)	–	(2,001)
Reclassifications	432	–	–	78	(84)	6	–	–	432
Impairments/Impairment Reversal	1,510	(5)	2,857	–	–	(2)	1	–	4,361
Upward Revaluations	43	1,342	–	15	20	73	19	–	1,512
Downward Revaluations	(45)	–	–	–	–	–	–	–	(45)
At 31 March 2018	**69,596**	**52,778**	**54,959**	**1,068**	**1,007**	**7,658**	**846**	**877**	**188,789**

6. Property, plant and equipment (continued)

2017-18	Land £'000	Buildings £'000	Infrastructure Assets £'000	Information Technology £'000	Plant & Machinery £'000	Furniture & Fittings £'000	Transport Equipment £'000	Payments on A/c & Assets under Construction £'000	Total £'000
Depreciation									
At 1 April 2017	35	1,240	10,809	1,265	658	3,888	535	–	18,430
Adjustments to opening balances	–	5	–	(3)	–	–	–	–	2
Charged in year	3	1,562	1,350	51	93	547	85	–	3,691
Disposals	–	(444)	–	(371)	(8)	(320)	(40)	–	(1,183)
Reclassifications	–	–	–	79	(82)	3	–	–	–
Impairments/Impairment Reversal	–	(598)	137	–	–	(1)	–	–	(462)
Upward Revaluations	–	(1,026)	–	(74)	(9)	(191)	(7)	–	(1,307)
Downward Revaluations	–	–	–	–	–	–	–	–	–
At 31 March 2018	**38**	**739**	**12,296**	**947**	**652**	**3,926**	**573**	**–**	**19,171**
Carrying amount at 31 March 2018	**69,558**	**52,039**	**42,663**	**121**	**355**	**3,732**	**273**	**877**	**169,618**
Carrying amount at 31 March 2017	67,239	50,801	41,232	154	405	2,606	333	561	163,331

1. See note 1.3 Accounting Policies

6. Property, plant and equipment (continued)

	Land £'000	Buildings £'000	Infrastructure Assets £'000	Information Technology £'000	Plant & Machinery £'000	Furniture & Fittings £'000	Transport Equipment £'000	Payments on A/c & Assets under Construction £'000	Total £'000
Asset Financing:									
Owned	69,558	51,066	42,663	121	355	3,732	273	877	168,645
Finance leased	–	–	–	–	–	–	–	–	–
On-Balance Sheet PFI contracts and other service concession arrangements	–	–	–	–	–	–	–	–	–
Contracts	–	973	–	–	–	–	–	–	973
Carrying amount at 31 March 2018	**69,558**	**52,039**	**42,663**	**121**	**355**	**3,732**	**273**	**877**	**169,618**
Of the total:									
Core Department	69,558	52,039	42,663	121	355	3,732	273	877	169,618
Agencies	–	–	–	–	–	–	–	–	–
Carrying amount at 31 March 2018	**69,558**	**52,039**	**42,663**	**121**	**355**	**3,732**	**273**	**877**	**169,618**

6. Property, plant and equipment (continued)

2016-17	Land £'000	Buildings £'000	Infrastructure Assets £'000	Information Technology £'000	Plant & Machinery £'000	Furniture & Fittings £'000	Transport Equipment £'000	Payments on A/c & Assets under Construction £'000	Total £'000
Cost or valuation									
At 1 April 2016	72,474	46,623	47,919	1,354	867	5,696	867	1,313	177,113
Adjustments to opening balances	–	(1)	–	38	14	(1,124)	–	–	(1,073)
Inter-business area transfers	–	–	–	(471)	–	(54)	–	–	(525)
Additions	2,202	–	169	8	198	1,579	87	392	4,635
Transfers in	160	–	–	481	4	1,100	–	–	1,745
Donations	–	5,000	–	–	–	–	–	–	5,000
Disposals	(344)	–	–	(25)	(47)	(737)	(96)	–	(1,249)
Reclassifications	–	1,118	–	3	2	21	–	(1,144)	–
Impairments/Impairment Reversal	(11,317)	(57)	(1)	1	–	8	(4)	–	(11,370)
Upward Revaluations	5,363	(570)	3,955	30	25	5	14	–	8,822
Downward Revaluations	(1,264)	(72)	(1)	–	–	–	–	–	(1,337)
At 31 March 2017	67,274	52,041	52,041	1,419	1,063	6,494	868	561	181,761

6. Property, plant and equipment (continued)

2016-17	Land £'000	Buildings £'000	Infrastructure Assets £'000	Information Technology £'000	Plant & Machinery £'000	Furniture & Fittings £'000	Transport Equipment £'000	Payments on A/c & Assets under Construction £'000	Total £'000
Depreciation									
At 1 April 2016	31	3,260	9,569	1,189	638	4,355	648	–	19,690
Adjustments to opening balances	–	–	–	32	–	(666)	–	–	(634)
Inter-business area transfers	–	–	–	4	–	613	–	–	617
Charged in year	4	2,327	1,240	81	70	405	63	–	4,190
Disposals	–	–	–	(25)	(46)	(729)	(96)	–	(896)
Reclassifications	–	–	–	–	–	–	–	–	–
Impairments/Impairment Reversal	–	(36)	–	–	–	5	–	–	(31)
Upward Revaluations	–	(3,157)	–	(16)	(4)	(95)	(80)	–	(3,352)
Downward Revaluations	–	(1,154)	–	–	–	–	–	–	(1,154)
At 31 March 2017	35	1,240	10,809	1,265	658	3,888	535	–	18,430
Carrying amount at 31 March 2017	67,239	50,801	41,232	154	405	2,606	333	561	163,331
Carrying amount at 31 March 2016	72,443	43,363	38,350	165	229	1,341	219	1,313	157,423

1. See note 1.3 Accounting Policies

6. Property, plant and equipment (continued)

	Land £'000	Buildings £'000	Infrastructure Assets £'000	Information Technology £'000	Plant & Machinery £'000	Furniture & Fittings £'000	Transport Equipment £'000	Payments on A/c & Assets under Construction £'000	Total £'000
Asset Financing:									
Owned	67,239	49,585	41,232	154	405	2,606	333	561	162,115
Finance leased	–	1,216	–	–	–	–	–	–	1,216
On-Balance Sheet PFI contracts and contracts	–	–	–	–	–	–	–	–	–
Carrying amount at 31 March 2017	67,239	50,801	41,232	154	405	2,606	333	561	163,331
Of the total:									
Core Department	67,239	50,801	41,232	154	405	2,606	333	561	163,331
Agencies	–	–	–	–	–	–	–	–	–
Carrying amount at 31 March 2017	67,239	50,801	41,232	154	405	2,606	333	561	163,331

7. Intangible assets

2017–18	Computer Software £'000	Other £'000	Total £'000
Cost or valuation			
At 1 April 2017	5,737	217	5,954
Inter-business area transfers	–	–	–
Additions	2,358	–	2,358
Donations	–	–	–
Disposals	(62)	(1)	(63)
Reclassifications	17	(17)	–
Impairments/Impairment Reversal	–	–	–
Upward Revaluations	293	6	299
Downward Revaluations	–	–	–
At 31 March 2018	**8,343**	**205**	**8,548**
Amortisation			
At 1 April 2017	1,945	140	2,085
Inter-business area transfers	17	(17)	–
Charged in year	1,220	23	1,243
Disposals	(62)	(3)	(65)
Reclassifications	–	–	–
Impairments/Impairment Reversal	–	–	–
Upward Revaluations	89	6	95
Downward Revaluations	–	–	–
At 31 March 2018	**3,209**	**149**	**3,358**
Carrying amount at 31 March 2018	**5,134**	**56**	**5,190**
Carrying amount at 31 March 2017	3,792	77	3,869
Asset Financing:			
Owned	5,134	56	5,190
Finance leased	–	–	–
Contracts	–	–	–
Carrying amount at 31 March 2018	**5,134**	**56**	**5,190**
Of the total:			
Core Department	5,134	56	5,190
Agencies	–	–	–
Carrying amount at 31 March 2018	**5,134**	**56**	**5,190**

7. Intangible assets (continued)

2016-17	Computer Software £'000	Other £'000	Total £'000
Cost or valuation			
At 1 April 2016	2,296	68	2,364
Inter-business area transfers	–	–	–
Additions	3,189	–	3,189
Donations	–	–	–
Disposals	(5)	–	(5)
Reclassifications	161	145	306
Impairments/Impairment Reversal	–	–	–
Upward Revaluations	96	4	100
Downward Revaluations	–	–	–
At 31 March 2017	5,737	217	5,954
Amortisation			
At 1 April 2016	1,465	18	1,483
Inter-business area transfers	–	–	–
Charged in year	373	21	394
Disposals	203	98	301
Reclassifications	–	–	–
Impairments/Impairment Reversal	–	–	–
Upward Revaluations	(96)	3	(93)
Downward Revaluations	–	–	–
At 31 March 2017	1,945	140	2,085
Carrying amount at 31 March 2017	3,792	77	3,869
Carrying amount at 31 March 2016	831	50	881
Asset Financing:			
Owned	3,792	77	3,869
Finance leased	–	–	–
Contracts	–	–	–
Carrying amount at 31 March 2017	3,792	77	3,869
Of the total:		–	–
Core Department	3,792	77	3,869
Agencies	–	–	–
Carrying amount at 31 March 2017	3,792	77	3,869

8. Heritage Assets

2017-18	Land £'000	Buildings £'000	Other £'000	Total £'000
Cost or valuation				
At 1 April 2017	555	–	680	1,235
Additions	–	18	33	51
Donations	–	–	–	–
Disposals	–	–	–	–
Reclassifications	–	–	–	–
Impairments	–	–	–	–
Upward Revaluations	–	–	–	–
Downward Revaluations	–	–	–	–
At 31 March 2018	**555**	**18**	**713**	**1,286**
Amortisation				
At 1 April 2017	–	–	–	–
Charged in year	–	–	–	–
Disposals	–	–	–	–
Impairments	–	–	–	–
Upward Revaluations	–	–	–	–
Downward Revaluations	–	–	–	–
At 31 March 2018	**–**	**–**	**–**	**–**
Carrying amount at 31 March 2018	**555**	**18**	**713**	**1,286**
Carrying amount at 31 March 2017	555	–	680	1,235
Asset Financing:				
Owned	555	18	713	1,286
Finance leased	–	–	–	–
Contracts	–	–	–	–
Carrying amount at 31 March 2018	**555**	**18**	**713**	**1,286**
Of the total:				
Core Department	555	18	713	1,286
Agencies	–	–	–	–
Carrying amount at 31 March 2018	**555**	**18**	**713**	**1,286**

8. Heritage Assets (continued)

2016-17	Land £'000	Buildings £'000	Other £'000	Total £'000
Cost or valuation				
At 1 April 2016	597	2	680	1,279
Additions	–	–	–	–
Donations	–	–	–	–
Disposals	–	–	–	–
Reclassifications	–	–	–	–
Impairments	(42)	(2)	–	(44)
Upward Revaluations	–	–	–	–
Downward Revaluations	–	–	–	–
At 31 March 2017	555	–	680	1,235
Amortisation				
At 1 April 2016	–	–	–	–
Charged in year	–	–	–	–
Disposals	–	–	–	–
Impairments	–	–	–	–
Upward Revaluations	–	–	–	–
Downward Revaluations	–	–	–	–
At 31 March 2017	–	–	–	–
Carrying amount at 31 March 2017	555	–	680	1,235
Carrying amount at 31 March 2016	597	2	680	1,279
Asset Financing:				
Owned	555	–	680	1,235
Finance leased	–	–	–	–
Contracts	–	–	–	–
Carrying amount at 31 March 2017	555	–	680	1,235
Of the total:				
Core Department	555	–	680	1,235
Agencies	–	–	–	–
Carrying amount at 31 March 2017	555	–	680	1,235

9. Impairments

	2017-18 £'000	2016-17 (Restated) £'000
Amount charged to the Statement of Comprehensive Net Expenditure	(1,239)	11,183
Amount taken through the revaluation reserve	6,062	(22,276)
Total Impairment charge for the year	**4,823**	(11,093)

10. Financial Instruments

As the cash requirements of the Department are met through the estimates process, financial instruments play a more limited role in creating risk than would apply to a non- public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to little credit, liquidity or market risk.

Credit Risk

The Department manages its exposure to credit risk via credit risk management policies. Credit policies cover exposures generated from benefit overpayment receivables and Social Fund loans and are embedded within regulations governing Social Security benefits.

The maximum exposure to credit risk is represented by the carrying amounts of the financial assets in the Statement of Financial Position. For benefit overpayment receivables and Discretionary and Social Fund loans the exposure to credit risk is the amount of debt or loan not recovered from benefit customers.

For benefit overpayment receivable, Discretionary and Social Fund Loans, the exposure is limited to the extent that the receivable can be recovered from cash recoveries and deductions from benefit payments e.g. from State Pension Benefit and even from the estate on death. Some risk still remains as the level that can be recovered from each benefit payment is restricted to avoid causing hardship, and customers do not always have sufficient funds in their estate to cover the receivable. However, the Department has an active recovery process in place, in order to maximise the amounts recovered.

Liquidity risk

The Department's resource requirements are financed by resources voted by the Assembly and Parliament. Its capital expenditure is voted by the Assembly only. It is not, therefore, exposed to significant liquidity risks.

The Department has a statutory obligation to issue Discretionary and Social Fund loans and seek repayments in line with legislation. The Department is not permitted to withhold loans on the basis of poor credit rating nor is it able to seek collateral. The Department is therefore exposed to risk that some Discretionary and Social Fund loans will not be repaid.

Interest rate risk

Interest rate risk primarily occurs when there are changes in the market interest rates. The Department has discounted the forecast future cash flows for estimated recoveries and write offs for benefit overpayment receivables and Discretionary and Social Fund loans. The Treasury discount rate to be applied is the real rate of 2.2%. The Treasury's discount rate is substantially independent of changes in market interest rates.

The Department categorises the following account balances to be financial instrument

(i) Cash and cash equivalents

- Programme and resource financing
- NIF receivable
- Cash in Transit

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions which are readily convertible to known amounts of cash and which are subject to insignificant changes in value. It also comprises funding voted by the Northern Ireland Assembly to meet the Department's resource requirements, the NI National Insurance Fund receivable and cash in transit. The NI National Insurance Fund (NIF) receivable represents the balance at the year end of the funding provided to the Department by Her Majesty's Revenue and Customs (HMRC) for the payment of contributory benefits.

The fair value for these approximates to the current value stated in the Statement of Financial Position owing to the short maturity of this instrument.

(ii) Loans and Receivables

- Benefit overpayment receivables (including Housing Benefit)
- Discretionary and Social Fund loans
- NIHE loan receivable
- Housing association loans
- Local authority loans
- Get Britain Building loans

Loans and receivables are non derivative financial assets with fixed or determinable payments which are not quoted on an active market and which are not classified as available for sale. Loans and receivables are assessed at the end of each accounting period and reduced, where appropriate to their estimated recoverable amount through making an impairment based on forecast cash and benefit deduction recoveries and write off information. In addition, the Department applies a discount factor to estimate the present value of the cash flows. The discount factor for 2017-18 was 3.7%, (2016-17: 3.7%).

Financial instruments are carried at amortised cost using the effective interest method, with changes in value between 1 April 2017 and 31 March 2018 recognised in the Statement of Comprehensive Net Expenditure in the line which most appropriately reflects the nature of the item or transaction.

Given the nature of the NIHE, local authority and housing association loan receivables, the reason for their existence and the Department's policy towards them, the fair value is not materially different from the book value.

The amounts included in the 2017-18 accounts are:

Statement of Financial Position	Gross Receivables £'000	Impairment & Discounting Debt £'000	Net Receivables £'000
Loans and Receivables (amounts falling due less than one year):			
Other Loans	45,335	(562)	44,773
NIHE Loans	38,443	–	38,443
Housing Benefit	11,367	–	11,367
Non-contributory Benefits	9,398	(2,241)	7,157
Discretionary Loans	1,565	(29)	1,536
Housing Association Loans	1,066	–	1,066
Contributory Benefits	839	(133)	706
CRU Receivable	473	(49)	424
Get Britain Building Loans	151	(6)	145
Salary Overpayments	197	(122)	75
Tax Credit Receivable	267	(211)	56
Funeral Loans	75	(2,159)	(2,084)
Loans & Receivables (amounts falling due more than one year):			
NIHE Loans	217,570	–	217,570
NICHA FTC Funding	100,000	(38,490)	61,510
Non-contributory Benefits	98,090	(51,839)	46,251
Get Britain Building Loans	40,255	(10,267)	29,988
Other Loans	30,931	(5,341)	25,590
Housing Benefit	11,787	(1,878)	9,909
Contributory Benefits	10,593	(5,740)	4,853
Housing Association Loans	3,554	–	3,554
Funeral Loans	4,151	(1,973)	2,178
Tax Credit Receivable	339	(249)	90
	626,446	**(121,289)**	**505,157**

(iii) Other Liabilities

Programme and resource payables and accruals

Contractual programme and resource payables and accruals are non-derivative financial instruments. These amounts are due within one year and have no impairment indicators.

The Department has reviewed all contracts including service level agreements and letters of offer with third parties for any embedded derivatives. The review concluded that any embedded derivatives which exist are outside the scope of IAS 39.

11. Investments and loans in other public sector bodies

	Loans £'000	Other £'000	Total £'000
Balance at 1 April 2016	111,104	–	111,104
Additions	5,502	–	5,502
Disposals	–	–	–
Repayments and Redemptions	(1,307)	–	(1,307)
Interest Capitalised	–	–	–
Revaluations	(18,748)	–	(18,748)
Impairments	–	–	–
Balance at 31 March 2017	96,551	–	96,551
Additions	–	–	–
Disposals	–	–	–
Repayments and Redemptions	(1,224)	–	(1,224)
Interest Capitalised	–	–	–
Revaluations	3,274	–	3,274
Impairments	–	–	–
Balance at 31 March 2018	**98,601**	**–**	**98,601**

Analysis of investments: The balance of investments comprises:	Loans £'000	Other £'000	Total £'000
Core Department 2018	98,601	–	98,601
Agencies 2018	–	–	–
Core Department 2017	96,551	–	96,551
Agencies 2017	–	–	–

Analysis by period:	£'000
Not later than one year	1,211
Later than one year and not later than five years	26,295
Later than five years	71,095
Balance at 31 March 2018	**98,601**

The closing balance consists of £4.620 million of long term loans in place with the housing associations, £91.643 million of Get Britain Building, Affordable Homes and Empty Homes loans and £2.338 million relates to an interest free loan to Ulster Supported Employment Limited.

12. Assets held for sale

	Total £'000
Balance at 1 April 2016	1,265
Additions	–
Disposals	(39)
Reclassifications	(160)
Impairments	246
Upward Revaluations	592
Downward Revaluations	–
Balance at 31 March 2017	1,904
Additions	–
Disposals	(685)
Reclassifications	(432)
Impairments	–
Upward Revaluations	–
Downward Revaluations	(130)
Balance at 31 March 2018	**657**

Asset Financing:	
Owned	657
Balance at 31 March 2018	**657**

Of the total:	
Core Department	657
Agencies	–
Balance at 31 March 2018	**657**

13. Inventories

	2017-18 £'000	2016-17 £'000
PRONI	123	136
Total	**123**	136

14. Cash and cash equivalents

	2017-18 £'000	2016-17 £'000
Balance at 1 April	699	(1,457)
Net change in cash and cash equivalent balances	(3,273)	2,156
Balance at 31 March	**(2,574)**	699

The following balances at 31 March are held at:

	2017-18 £'000	2016-17 £'000
Commercial bank balances	(2,611)	662
Cash at bank and in hand	37	37
Short term investments	–	–
Balance at 31 March	**(2,574)**	699

15. Trade receivables, financial and other assets

(The figures quoted below are net of any impairment or discount. Gross amounts are at Note 12).

15.1 Amounts falling due within one year:

	2017–18 £'000	2016–17 (Restated) £'000
Benefit overpayments		
– Contributory benefits	706	621
– Non-contributory benefits	7,157	7,082
– Housing benefit	8,209	7,602
– Social Fund	41	50
Benefit prepayments		
– Contributory benefits	24,219	27,394
– Non-contributory benefits	15,999	14,649
Social Fund loans		
– Funeral loans	(2,084)	(2,211)
– Budget loans	36,970	39,398
– Crisis loans	7,735	10,555
– Discretionary Support Loans	1,565	1,215
NIHE receivable	38,443	46,741
Grant repayable by NICHA	9,597	7,518
NIF receivable	8,499	5,003
VAT	4,180	3,403
EU Receivable	3,109	10,045
Other receivables	8,257	4,154
Housing Benefit Rent and Rates Prepayment	7,483	7,536
Prepayments and accrued income	6,116	5,534
Amounts due from the Consolidated Fund in respect of supply	–	–
Total amounts falling due within one year	**186,201**	196,289

15.2 Amounts falling due after more than one year:

	2017-18 £'000	2016-17 £'000
Benefit overpayments		
– Contributory benefits	4,853	4,318
– Non-contributory benefits	46,251	43,148
– Housing benefit	13,067	12,072
Social Fund loans		
– Funeral loans	2,178	2,316
– Budget loans	20,911	17,514
– Crisis loans	4,655	9,338
NIHE receivable	217,570	255,182
Other receivables	5,738	4,391
Total amounts falling due after more than one year	**315,223**	348,279
Total trade receivables, financial and other assets	**501,424**	544,568

16. Trade payables, financial and other liabilities

16.1 Amounts falling due within one year:

	Note	**2017–18 £'000**	2016–17 £'000
Other taxation and social security		–	4
Bank overdraft	14	2,611	–
Inter–Departmental payable with DWP		1,054	435
Trade payables:			
– Non–capital		1	104
– Capital		–	9
Benefit accruals:			
– Contributory benefits		33,833	31,597
– Non–contributory benefits		39,768	37,111
– Social Fund		30	33
NIF payable		–	–
Cash In Transit		17,464	51,252
NIHE payable		38,443	46,741
Vested Land Payable		3,569	3,640
Other payables		6,991	25,701
Grants accrual		30,275	33,864
Housing Benefit accrual		17,521	16,447
EU grants accrual		–	–
Financial Assistance Scheme accrual		5,475	4,995
Deferred Grant Income		2,635	2,635
Other accruals and deferred income		41,715	42,593
Amounts issued from the Consolidated Fund for supply but not spent at year end		2,295	4,784
Consolidated Fund extra receipts due to be paid to the Consolidated Fund			
– Received		2,579	481
– Receivable		440	527
Total amounts falling due within one year		**246,699**	302,953

16.2 Amounts falling due after more than one year:

	2017-18 £'000	2016-17 £'000
NIHE payable	217,570	255,182
Other programme payables	435	–
Total amounts falling due after more than one year	**218,005**	255,182
Total trade payables, financial and other liabilities	**464,704**	558,135

17. Provisions for liabilities and charges

	Note	2017–18			
		Early Departure Costs £'000	Financial Assistance Scheme £'000	Other Programme £'000	Total £'000
Balance at 1 April		4	238,984	2,323	241,311
Provided in the year	4	2	6,943	12,331	19,276
Provisions not required written back	4	–	–	(215)	(215)
Provisions utilised in the year		(6)	(5,475)	(542)	(6,023)
Borrowing Costs (Unwinding of discount)	4	–	2,763	36	2,799
Other	4	–	–	–	–
Balance at 31 March		**–**	**243,215**	**13,933**	**257,148**

Analysis of expected timing of discounted flows	2017-18			
	Early Departure Costs £'000	Financial Assistance Scheme £'000	Other Programme £'000	Total £'000
Not later than one year	–	5,635	12,359	17,994
Later than one year and not later than five years	–	34,095	105	34,200
Later than five years	–	203,485	1,469	204,954
Balance at 31 March	**–**	**243,215**	**13,933**	**257,148**

Provisions for liabilities and charges (continued)
Analysis of expected timing of discounted flows

	Note	2016–17			
		Early Departure Costs £'000	Financial Assistance Scheme £'000	Other Programme £'000	Total £'000
Balance at 1 April		14	218,719	2,516	221,249
Provided in the year	4	–	22,741	617	23,358
Provisions not required written back	4	–	–	(632)	(632)
Provisions utilised in the year		(9)	(4,995)	(378)	(5,382)
Borrowing Costs (Unwinding of discount)	4	–	2,519	29	2,548
Other	4	(1)	–	171	170
Balance at 31 March		4	238,984	2,323	241,311

Analysis of expected timing of discounted flows	2016-17			
	Early Departure Costs £'000	Financial Assistance Scheme £'000	Other Programme £'000	Total £'000
Not later than one year	4	5,737	2,008	7,749
Later than one year and not later than five years	–	26,540	315	26,855
Later than five years	–	206,707	–	206,707
Balance at 31 March	4	238,984	2,323	241,311

Financial Assistance Scheme
The Financial Assistance Scheme provides financial assistance to members of certain occupational pension schemes who have lost part or all of their pensions as a consequence of their scheme ending without having enough money to pay full pensions benefits. The Department for Work and Pensions calculate the provision on behalf of the whole of the UK, including Northern Ireland, using statistical models. As some employees were quite young when their pension scheme ended the Department for Work and Pensions model has forecast payments up until 2100. The provision is calculated using a discount rate of 2.0% for inflation and a further rate for NPV, (0.47)% for short-term, 0.11% for medium-term and 0.41% for long-term provisions.

18. Contingent liabilities disclosed under IAS 37

The Department has entered into the following contingent liabilities:

Public Liability Claims

There is an estimated contingent liability for Outstanding Public Liability Claims of £0.204 million.

Compensation Recovery Unit

The Department recognises recoveries of social security benefits from insurance companies in respect of ongoing compensation claims made by the benefit recipients. Once the recovery of the social security benefit is received by the Department's Compensation Recovery Unit (CRU), the insurance company has the right to appeal within one month. Should the appeal be successful the recovery is refunded to the insurance company. Analysis of historic data suggests it is reasonable to recognise a contingent liability of £0.184 million (2016-17: £0.379 million) for successful appeals from insurance companies.

Employment and Support Allowance

The Department has been working closely with the GB Department for Work and Pensions following their announcement, in November 2017, that a number of Employment and Support Allowance (ESA) claimants may not be receiving the right amount of benefit. The error relates to a specific group that migrated, as part of a reassessment exercise, from Incapacity Benefit and Severe Disablement Allowance to contributory ESA between 2011 and 2014.

The Department estimates that the amount of benefit due to customers is approximately £20 million. The Department will establish a special team to review the cases affected and will contact all individuals whom we believe may be affected and revise the original decision and pay any arrears due. It is anticipated that all affected cases will be reviewed, in line with the DWP approach, by April 2019.

Employment and Support Allowance – Disability Premiums

Communications between the Department for Communities (DfC) and the GB Department for Work and Pensions (DWP) have identified an issue which may have resulted in Employment and Support Allowance (ESA) claimants not receiving the correct amount of benefit. At this time it is expected this relates to a specific group of customers who were entitled to disability premiums under income related benefits, however on transfer to ESA this premium may not have been considered as part of their benefit payment.

The Department understands that a small amount of DfC customers may be impacted and the potential arrears amount is estimated to be £200k. It is expected that all affected cases will be reviewed, in line with the DWP approach, by April 2019.

Compensation Payments

The Department is accountable for lump sum compensation payments in relation to pneumoconiosis and certain other dust related diseases. Payments due under the Pneumoconiosis, etc., (Workers Compensation) (Northern Ireland) Order 1979 compensate those suffering from certain dust diseases where, at the time of submitting their claim to the scheme, they are unable to claim compensation by way of civil action in the courts. Award of Industrial Injuries Disablement Benefit (IIDB) is a precondition for payments to all sufferers and most dependants under this scheme.

Compensation payments due under the Mesothelioma, etc., Act (Northern Ireland) 2008 are made through the Mesothelioma Scheme (2008). This scheme was introduced on 1 October 2008 and compensates sufferers from mesothelioma who are not eligible for help from the 1979 Order. Payments made under this scheme are financed by recovery from civil damages paid to sufferers claiming under both schemes, and contributions from DWP towards meeting the costs of the scheme in Northern Ireland.

The diseases covered by both schemes have a long latency period which makes the number of years over which claims will continue to be made unclear. No reliable estimate of the financial effect can therefore be given.

Financial Guarantees, Indemnities and Letter of Comfort

The Department has entered into the following quantifiable indemnities. None of these is a contingent liability within the meaning of IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote. They therefore fall to be measured following the requirements of IAS 39. Managing Public Money Northern Ireland requires that the full potential costs of such contracts be reported to the Assembly.

Statutory Guarantees

The Department has entered into a Guarantee Agreement with the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) in respect of Armagh Observatory and Planetarium, Arts Council of Northern Ireland and Northern Ireland Library Authority. The Department has guaranteed any and all obligations in respect of pension liabilities if any of these NDPBs ceases to exist or is otherwise unable to discharge its liabilities under the Local Government Pension Scheme Regulations (Northern Ireland) 2002.

Statutory indemnities

Indemnities to cover local museums borrowing objects for exhibitions to the value of £1.705 million at 31 March 2018.

19. Leases

19.1 Finance leases

The Department has no finance lease obligations.

19.2 Operating leases

£0.436 million (2016:17 £0.494 million) was included as an expense on operating leases in the Statement of Comprehensive Net Expenditure.

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

Obligations under operating leases comprise:	2017-18 £'000	2016-17 £'000
Buildings:		
Not later than one year	2,122	1,809
Later than one year and not later than five years	8,460	1,565
Later than five years	9,757	3,286
Total	**20,339**	6,660
Other:		
Not later than one year	3	6
Later than one year and not later than five years	–	–
Later than five years	–	–
Total	**3**	6
Total obligations under operating leases	**20,342**	6,666

20. Capital and other commitments

20.1 Capital commitments

Contracted capital commitments at 31 March not otherwise included in these financial statements	2017-18 £'000	2016-17 £'000
Implementation of Regional Stadium Development Programme	52,655	52,200
Other	1,645	–
Total	**54,300**	52,200

20.2 Other Financial Commitments

The Department has entered into non-cancellable contracts (which are not leases or PFI contracts or other service concession arrangements) for the services outlined below. The payments to which the Department is committed are as follows:

Obligations under operating leases comprise:	2017-18 £'000	2016-17 £'000
Not later than one year	56,531	61,065
Later than one year and not later than five years	27,916	103,152
Later than five years	1,797	65,598
Total	**86,244**	229,815

Included within Other Financial Commitments are:	£'000
Medical Support Services (MSS)	18,609
Standard Service Business Allocation	15,218
Post Office Card Account	13,130
Simple Payment Service	–
Personal Independence Payment (PIP) / Capita Contract	36,108
i-movo	144
Landlord Registration Database	151
PRONI Specialist Storage	2,884
Total	**86,244**

21. Government grant commitments

	2017-18 £'000	2016-17 £'000
Government grant commitments at 31 March for which no provision has been made	23,947	30,679
Other	–	–
Total	**23,947**	30,679

22. Related-party transactions

The Department for Communities sponsors those bodies listed in Note 25. All these bodies are regarded as related parties with which the Department has had material transactions during the year.

The Department had a related party transaction with the Special EU Programme Body (SEUPB). During 2017-18 £6.868 million was recovered from the EU. At 31 March 2018 the EU receivables balance is £3.109 million.

In addition, the Department has had a small number of transactions with other government departments and other central government bodies. Most of these transactions have been with the Department of Health and the Department for Infrastructure. Other entities include the Department for the Economy, the Department of Finance and the Department for Work and Pensions in Great Britain.

23. Payment Accuracy

This note provides detail on the area of Payment Accuracy (benefit fraud and error), and the relevant estimated amounts of overpayments and underpayments across all Department for Communities benefits and Housing Benefit.

Department for Communities ('the Department')

Social Security legislation lays out the basis on which the Department calculates and pays benefits. However, the complexity of the benefit systems and inherent risks associated with the award and payment of benefits can result in inaccurate payments being made in a proportion of the awards made. The Department has a robust security strategy in place to tackle incorrectness and measure results. The focus is on the prevention, detection and correction of fraud and error, with investigation and prosecution where appropriate. Further information on the range and detail of the Department's counter fraud and error activities is set out in Part B - Strategies to Reduce Fraud and Error.

The Department currently administers 33 benefits. Processing volumes related to this are approximately 28 million benefit payments per year, with 540,000 new claims and more than 746,000 changes of circumstances notified by customers. A benefit system of such a scale, complexity, and sensitivity to changing customer circumstances, and human behaviours, is vulnerable to fraud and human error. Despite these challenges the Department has successfully maintained levels of loss due to fraud and error at levels which compare favourably performance which exceeds that of any comparative organisation.

During the calendar year 2017 the Department has continued its regular monitoring and measurement of the levels of fraud and error. The figures are calculated on a rolling annual basis and the figures do not vary significantly between quarters. The calendar year figures for Fraud and Error are processed and produced by March of the following year, to facilitate production and publication of the Department's accounts. This calendar year approach to measurement has been in place for many years. Essentially this involves two main activities:

(i) Financial Accuracy Monitoring
(ii) Benefit Reviews

An estimate of total fraud and error is derived by combining the results from Financial Accuracy monitoring, which provides a measure of Official Error, with results from the Benefit Reviews which provide a measure of Customer Fraud and Customer Error.

The tables in this section show estimates for Customer Fraud, Customer Error and Official Error in terms of overpayments and underpayments. For clarity additional tables have also been included within the 2017 Payment Accuracy note to show the totals of estimated overpayments and underpayments for the previous calendar year.

Notes to the Tables for Official Error, Customer Error and Customer Fraud

Roundings: In tables throughout the report figures may have been calculated to more decimal places than shown and have been rounded for presentational purposes. This means that where a breakdown of a total is given the rounded individual parts may not sum to the rounded total.

Confidence Intervals: around the statistical estimates provided in the tables. The Department reviews a sample of claims; this is a sampling approach as it would be impractical to assess every case, and therefore requires a level of statistical certainty to underpin the estimates. This level of certainty is quantified with **confidence intervals** or tolerances within which the central estimates are produced. These give the range in which the Department has a **confidence level** of 95%. This means the Department can be 95% sure that the true value lies for each of the estimates presented. To enable Standards Assurance Unit to successfully complete a significant transition to a new branch organisational structure, sample sizes were reduced in 2017. In our commitment to continuous improvement the Department is targeting sample size numbers to ensure the best use of available resources focused on those benefits with more variability. The results still maintain a 95% confidence level. Each of the following tables shows the monetary value of error (MVE) and the MVE as a percentage of expenditure. The associated 'range' or 'lower' and 'upper 'confidence intervals are also provided. The figures also account for additional uncertainty that has been introduced into the overall estimates by the introduction of data from previous years.

The confidence intervals quoted for each error category relate to the individual error category Monetary Value of Error. The table also quotes a total Monetary Value of Error figure with associated confidence intervals. The lower confidence interval quoted for the total Monetary Value of Error should not equal the sum of the lower confidence interval for each individual benefit Monetary Value of Error. The upper confidence interval quoted for the total Monetary Value of Error should not equal the sum of the upper confidence interval for each individual benefit Monetary Value of Error.

Estimating Unreviewed Benefits

The Department is committed to continuous improvement in its measurement of fraud & error. In 2017, for the first time, the Department have applied proxy figures to Social Fund, Attendance Allowance, Industrial Injuries Disablement Benefit, and Other Expenditure (Non-NIF).

Previously where Social Fund, Attendance Allowance, Industrial Injuries Disablement Benefit, and Other Expenditure (Non-NIF) had not been measured; it was assumed, for overall fraud & error calculations, there was no customer fraud or error within these benefits. The use of proxy figures represents a methodology change but the difference is not material so comparisons between 2016 and 2017 are valid.

Tables 1 and 2 shows the unreviewed benefits and the benefits used to provide an estimate for these benefits. These are known as Proxy Benefits as they provide an approximate estimate for the unreviewed benefit. Table 3 shows the individual elements of the Other Expenditure element and the benefits used to provide an estimate for these elements. The Proxy Benefits used are in line with DWP.

Table 1: Unreviewed Benefits and Their Proxy Measures (Official Error)

	Proxy Measure	Official Error Period
Personal Independence Payment	DLA	Jan 15 – Dec 15
Universal Credit	JSA	Jan 17 – Dec 17

* The Budgeting Loans, Crisis Loans and Community Care Grants elements of Social Fund estimates are based on the 2016 exercise, but the Funeral Payments and Sure Start Maternity Grants elements estimates are based on the 2013 exercise.

Table 2: Unreviewed Benefits and Their Proxy Measures (Benefit Review)

Main Benefit	Proxy Measure	Benefit Review Period
Bereavement Benefit	JSA	Jan 17 - Dec 17
Maternity Allowance	ESA	Jan 17 - Dec 17
Widows Benefit	JSA	Jan 17 - Dec 17
Attendance Allowance	DLA	Jan 08 - Dec 08
Social Fund	JSA	Jan 17 - Dec 17
Industrial Injuries Disablement Benefit	DLA	Jan 08 - Dec 08
Personal Independence Payment	DLA	Jan 08 - Dec 08
Universal Credit	JSA	Jan 17 - Dec 17

Table 3: Other Expenditure Elements and Their Proxy Measures

Other Expenditure Item	Proxy Measure	Official Review Period	Benefit Review Period
Christmas bonus (Contributory)	Overall*	Jan 17 - Dec 17	Jan 17 - Dec 17
Other Expenditure (excl. Christmas Bonus Contributory)	Overall*	Jan 17 - Dec 17	Jan 17 - Dec 17

* The Overall result is based on the State Welfare Benefits and does not include Housing Benefit – Northern Ireland Housing Executive or Housing Benefit – Land and Property Services.

Social Security Benefits

Official Error: The official error estimates for 2017 are based on the results of the Department's Financial Accuracy Exercises completed in 2017 with the exception of Disability Living Allowance, Income Support, Attendance Allowance, Bereavement Benefit, Carer's Allowance, Industrial Injuries Disablement Benefit, Maternity Allowance, Social Fund, Widow's Benefit, Personal Independence Payments, and Universal Credit.

Income Support is based on results from 2016. Disability Living Allowance is based on results from 2015. Attendance Allowance, Bereavement Benefit, Carer's Allowance, Industrial Injuries Disablement Benefit, and Maternity Allowance and based on 2014 results. Widow's Benefit is based on results from 2012. Personal Independence Payments, and Universal Credit have never been measured; these results are based on other benefits as per Table 1 (above). Social Fund is no longer measured; the Budgeting Loans + Crisis Loans + Community Care Grants elements of Social Fund estimates are based on the 2016 exercise, but the Funeral Payments + Sure Start Maternity Grants elements estimates are based on the 2013 exercise.

Customer Error and Customer Fraud:

Customer Fraud and Customer Error are measured by a Benefit Review Exercise. In 2017, Benefit reviews were carried out on Jobseekers Allowance, Employment & Support Allowance, State Pension Credit, Housing Benefit – Northern Ireland Housing Executive, and Housing Benefit – Land and Property Services. Estimates for 2017 customer fraud and customer error in Disability Living Allowance are based on the 2008 Benefit Review exercise. Estimates for Incapacity Benefit and State Pension are based on the 2009 Benefit Review exercise. Estimates for Carers Allowance are based on the 2010 Benefit Review exercise. Estimates for Income Support are based on the 2012 Benefit Review exercise.

In this paper estimates have been assigned to unreviewed benefits using current or historic estimates for other benefits. For the following benefits, Customer Fraud and Customer Error has never been measured – Attendance Allowance, Social Fund, Industrial Injuries Disablement Benefit, Bereavement Benefit, Maternity Allowance, and Widows Benefit. Details of the benefits used to estimate the above are in Table 2 (above).

For the following recently introduced benefits, Customer Fraud, Customer Error and Official Error have never been measured – Personal Independence Payment, and Universal Credit. Estimates have been assigned to these using current or historic estimates for other benefits as detailed in Section 2. Other Expenditure and Contributory Only Christmas Bonus are also unreviewed and details of the benefits used to estimate these are also in Table 3 (above).

Benefit Expenditure: In summary the expenditure stated for 2017 includes expenditure on 17 benefits, a total of £5,171 million, plus an amount of £64.8 million on other benefit expenditure in year. Total annual expenditure is £5,236 million.

Within the overall benefit expenditure totals in the tables below other benefit expenditure for the calendar year 2017 includes, Retirement Pension £4.5 million, Job Grant £0.3 million, Severe Disablement Allowance £5.7 million, Winter Fuel Payments £52.2 million, Cold Weather Payments £0.4 million, and Christmas Bonus (Non-contributory) £1.6 million.

Jobseeker's Allowance Training Allowances: The figures quoted in the tables below for the annual benefit expenditure amounts for Jobseeker's Allowance include the associated expenditure for Jobseeker's Training allowances as provided by the Department.

Social Fund: Social Fund financial accuracy for Budgeting Loans (BL), Community Care Grants (CCG) and Crisis Loans (CL) was measured in 2016. Social Fund Funeral Payments (FP) and Sure Start Maternity Grants (SSMG) are based on 2013 results. This does not affect the statistical validity of the Social Fund result as the remaining elements are still measured to a 95% confidence level.

Accounting Adjustments: The expenditure for Incapacity Benefit and Social Fund (Crisis Loans) is £0, but separate accounting adjustment related to the benefits has resulted in negative expenditures.

Housing Benefit
1. For Tenants
2. For owner occupiers

1. Housing Benefit – for tenants: is administered by the Northern Ireland Housing Executive on behalf of the Department. From 2009 Housing Benefit monitoring and review processes are consistent with the measurement approach adopted for all other social security benefits. Financial Accuracy Exercise measures Official Error. Benefit Review measures Customer Fraud and Customer Error. The results provide estimates of fraud and error in Housing Benefit for tenants. The 2017 benefit expenditure on Housing Benefit for tenants was £623.2 million.

It is estimated that there was a total amount of approximately £22.9 million overpaid through fraud and error in Housing Benefit for tenants for the year 2017. This represents approximately 3.7% of the related expenditure for the calendar year, of which £15.7 million (2.5%) is Customer Fraud, £4.8 million (0.8%) is Customer Error and £2.3 million (0.4%) is Official Error. The overall percentage has decreased from 4.3% in 2016 to 3.7% in 2017.

2017 Official Error estimates for Housing Benefit for tenants are based on the results of Financial Accuracy Exercise in 2017. Customer Error and Customer Fraud estimates for Housing Benefit for tenants are based on the results of Benefit Review in 2017.

2016 Official Error estimates for Housing Benefit for tenants are based on the results of Financial Accuracy Exercise in 2016. Customer Error and Customer Fraud estimates for Housing Benefit for tenants are based on the results of Benefit Review in 2016.

2. Housing Benefit – for owner occupiers: by legislation this benefit is administered by the Department of Finance (DoF). Operationally, this function is carried out by the Land & Property Services, part of the DoF. The 2017 benefit expenditure on Housing Benefit for owner occupiers was £37.9 million.

It is estimated that there was a total amount of approximately £4.3 million overpaid through fraud and error in Housing Benefit for owner occupiers for the year 2017. This represents approximately 11.4% of the related expenditure for the financial year, of which £2.3 million (6.0%) is Customer Fraud, £1.1 million (3.0%) is Customer Error and £0.9 million (2.4%) is Official Error. Compared to 2016 overpayments in Housing Benefit for owner occupiers have decreased from £5.6m (14.4%) to £4.3 (11.4%) in 2017.

Housing Benefit for owner occupiers has been included in the Resource Accounts of the Department from 2006-07.

2017 Official Error estimates for Housing Benefit for owner occupiers are based on the results of Financial Accuracy Exercise in 2017. Customer Error and Customer Fraud estimates for Housing Benefit for owner occupiers are based on the results of Benefit Review in 2017.

2016 Official Error estimates for Housing Benefit for owner occupiers are based on the results of Financial Accuracy Exercise in 2016. Customer Error and Customer Fraud estimates for Housing Benefit for owner occupiers are based on the results of Benefit Review in 2016.

Total Departmental Benefit Expenditure (all social security benefits including Housing Benefit)

Total Departmental benefit expenditure has increased from £5,896 million in 2016, to £5,897 million in 2017.

A: Overpayments

Benefit Overpayments

The table opposite shows the Department's total estimates of benefit overpayments for the last 2 years, 2017 and 2016 (all social security benefits including Housing Benefit).

Estimates of benefit overpayments for 2017 and 2016

2017	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval
Official Error	5,897,372,783	23,459,368	15,962,492	32,765,902	0.4%	0.3%	0.6%
Customer Error	5,897,372,783	12,849,918	8,430,654	18,414,556	0.2%	0.1%	0.3%
Customer Fraud	5,897,372,783	55,062,800	41,243,530	72,124,202	0.9%	0.7%	1.2%
Total Overpayments	**5,897,372,783**	**91,372,086**	**75,040,973**	**111,587,629**	**1.5%**	**1.3%**	**1.9%**

2016	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval
Official Error	5,895,594,124	24,330,416	18,235,497	32,594,990	0.4%	0.3%	0.6%
Customer Error	5,895,594,124	11,676,212	8,325,343	16,276,363	0.2%	0.1%	0.3%
Customer Fraud	5,895,594,124	51,678,129	41,171,583	63,728,823	0.9%	0.7%	1.1%
Total Overpayments	5,895,594,124	87,684,758	75,084,604	103,004,151	1.5%	1.3%	1.7%

The Department estimates that approximately £91.4 million overpaid through fraud and error in social security benefits (including Housing Benefit) for 2017. This represents approximately 1.5% of the total benefit expenditure, including housing benefit, for 2017, of which £55.1 million (0.9%) is Customer Fraud, £12.8 million (0.2%) is Customer Error and £23.5 million (0.4%) is Official Error.

The comparative estimate for 2016 is that there was approximately £87.7 million overpaid through fraud and error in social security benefits (including housing benefit). This represents approximately 1.5% of the total benefit expenditure for 2016, of which £51.7 million (0.9%) is Customer Fraud, £11.7 million (0.2%) is Customer Error and £24.3 million (0.4%) is Official Error.

In summary, Departmental loss in 2017 remains unchanged at 1.5% of total expenditure. The levels of loss due to official error remained at 0.4%. Levels of loss due to customer fraud and error combined increased from 1.1% in 2016 to 1.2% of total benefit expenditure in 2017. This comparison does not take account of the use of proxies for Social Fund, and Other Expenditure (Non-NIF); this change in methodology yielded an increase in customer fraud & error of £2.6 million, or 3.8% of the customer fraud & error measured in Social Fund and Other Expenditure (non-NIF).

Social Security Benefits (Excluding Housing Benefit): From the total £91.4 million overpayments, the 2017 estimate for overpayment through fraud and error which is attributable to social security benefits (excluding Housing Benefit) is £64.2 million. This represents approximately 1.2% of the total social security benefit expenditure for 2017, of which £37.0 million (0.7%) is Customer Fraud, £6.9 million (0.1%) is Customer Error and £20.2 million (0.4%) is Official Error. In summary, loss in 2017 in monetary terms rose from £53.2 million (1.0%) to £64.2 million (1.2%).

A detailed breakdown of the total overpayment amount for 2017 of £91.4 million, **which includes Housing Benefit**, is disclosed in the following tables. The tables are produced to depict the individual totals arising from the three main elements of benefit overpayments, i.e. Official Error, Customer Error and Customer Fraud. Figures for the 2016 year are also included for comparative purposes. In addition tables are also included at Part C that disclose the estimated amount of underpayments that have arisen from both Official and Customer Error in the 2017 and 2016 years.

Official Error - Overpayments

Official Error occurs where benefit awards are miscalculated as a result of an official not applying the benefit specific rules correctly or not taking into account all the circumstances applicable to an individual. The table below sets out the estimate of Official Error in 2017. Estimates of Official Error in 2016 are also shown for comparative purposes.

Estimates of official error overpayments across all benefits in 2017

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Financial Accuracy Exercise
Disability Living Allowance	945,877,233	1,237,547	–	5,318,230	0.1%	0.0%	0.6%	Jan 15–Dec 15 updated
Employment and Support Allowance	865,088,479	13,446,945	6,997,677	20,931,374	1.6%	0.8%	2.4%	Jan 17 - Dec 17
Income Support	140,825,664	853,971	–	2,480,019	0.6%	0.0%	1.8%	Jan 16 - Dec 16 updated
Jobseeker's Allowance	106,128,881	609,380	3,462	1,360,635	0.6%	0.0%	1.3%	Jan 17–Dec 17
State Pension	2,255,765,851	246,653	14,495	680,519	0.0%	0.0%	0.0%	Jan 16–Dec 16
State Pension Credit	253,289,069	3,256,524	1,301,235	5,763,013	1.3%	0.5%	2.3%	Jan 17-Dec 17
Attendance Allowance	199,502,614	–	–	–	–	–	–	Jan 14–Dec 14 updated
Bereavement Benefit	17,644,110	54,621	–	247,428	0.3%	0.0%	1.4%	Jan 14–Dec 14 updated
Carer's Allowance	160,750,016	–	–	–	–	–	–	Jan 14–Dec 14 updated
Industrial Injuries Disablement Benefit	29,241,280	–	–	–	–	–	–	Jan 14–Dec 14 updated

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Financial Accuracy Exercise
Maternity Allowance	12,173,123	–	–	–	–	–	–	Jan 14–Dec 14 updated
Social Fund (excl. Crisis Loans)	58,098,505	247,150	6,255	586,228	0.4%	0.0%	1.0%	Jan 13 - Dec 13 / Jan 16 - Dec 16 updated
Widow's Benefit	1,158,391	2,954	–	9,344	0.3%	0.0%	0.8%	Jan 12 - Dec 12 updated
Personal Independence Payments	122,815,295	160,687	–	690,534	0.1%	0.0%	0.6%	Proxied using DLA
Universal Credit	307,656	1,767	10	3,944	0.6%	0.0%	1.3%	Proxied using JSA
Other Expenditure (Non-NIF)	64,769,535	105,762	62,423	156,698	0.2%	0.1%	0.2%	Proxied using combination of results
Christmas Bonus (Contributory Only)	3,508,811	13,659	8,681	19,837	0.4%	0.2%	0.6%	Proxied using overall results
Incapacity Benefit	(649,077)	–	–	–	–	–	–	–
Social Fund (Crisis Loans)	(60,997)	–	–	–	–	–	–	–
Social Security Benefits	**5,236,234,440**	**20,237,619**	**–**	**–**	**0.4%**	**–**	**–**	**–**
Housing Benefit Tenants	623,248,688	2,322,657	823,777	4,215,878	0.4%	0.1%	0.7%	Jan 17 - Dec 17
Housing Benefit Owner Occupier	37,889,655	899,092	471,849	1,392,971	2.4%	1.2%	3.7%	Jan 17 - Dec 17
Housing Benefit	**661,138,343**	**3,221,749**	**–**	**–**	**0.5%**	**–**	**–**	**–**
Total	**5,897,372,783**	**23,459,368**	**15,962,492**	**32,765,902**	**0.4%**	**0.3%**	**0.6%**	**–**

Estimates of Official Error Overpayments Across all Benefits in 2016

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Financial Accuracy Exercise
Disability Living Allowance	1,026,272,247	1,342,733	–	5,770,254	0.1%	0.0%	0.6%	Jan 15 - Dec 15 updated
Employment and Support Allowance	840,829,736	9,001,393	5,432,481	13,113,140	1.1%	0.6%	1.6%	Jan 16 - Dec 16
Incapacity Benefit	–	–	–	–	–	–	–	Jan 11–Dec 11 updated
Income Support	152,555,530	925,101	232,061	1,805,845	0.6%	0.2%	1.2%	Jan 16 - Dec 16
Jobseeker's Allowance	125,279,056	366,983	118,497	666,202	0.3%	0.1%	0.5%	Jan 16 - Dec 16
State Pension	2,202,006,855	733,535	32,434	1,803,886	0.0%	0.0%	0.1%	Jan 16 - Dec 16
State Pension Credit	270,943,201	4,365,245	2,737,308	6,266,109	1.6%	1.0%	2.3%	Jan 16 - Dec 16
Attendance Allowance	201,153,545	–	–	–	–	–	–	Jan 14–Dec 14 updated
Bereavement Benefit	18,614,818	57,626	–	261,040	0.3%	0.0%	1.4%	Jan 14–Dec 14 updated
Carer's Allowance	154,862,686	–	–	–	–	–	–	Jan 14–Dec 14 updated
Industrial Injuries Disablement Benefit	29,657,146	–	–	–	–	–	–	Jan 14–Dec 14 updated
Maternity Allowance	12,766,068	–	–	–	–	–	–	Jan 14–Dec 14 updated
Social Fund	80,863,227	319,731	157,948	550,413	0.4%	0.2%	0.7%	See note
Widow's Benefit	1,323,868	3,376	–	10,679	0.3%	–	0.8%	Jan 12–Dec 12 updated
Incapacity Benefit v2	(739,901)	–	–	–	–	–	–	–
Personal Independence Payments	5,382,835	–	–	–	–	–	–	–
Other Expenditure (Non-NIF)	66,621,041	–	–	–	–	–	–	–
Christmas Bonus (Contributory Only)	3,521,507	11,617	8,315	16,028	0.3%	0.2%	0.5%	Proxy Exercise
Social Security Benefits	**5,191,913,465**	**17,127,340**	**–**	**–**	**0.3%**	**–**	**–**	**–**
Housing Benefit Tenants	664,616,389	5,453,280	1,828,489	10,517,289	0.8%	0.3%	1.6%	Jan 16 - Dec 16
Housing Benefit Owner Occupier	**39,064,270**	**1,749,796**	**1,167,848**	**2,406,113**	**4.5%**	**3.0%**	**6.2%**	**Jan 16 - Dec 16**
Housing Benefit	**703,680,659**	**7,203,076**	**–**	**–**	**1.0%**	**–**	**–**	**–**
Total	**5,895,594,124**	**24,330,416**	**18,235,497**	**32,594,990**	**0.4%**	**0.3%**	**0.6%**	**–**

Customer Error – Overpayments

Customer error occurs where there has been a failure by the customer to notify a reportable change that affects the benefit in payment but there is no suspicion of fraud/fraudulent intent. The table below sets out the estimate of Customer Error overpayments in 2017. Estimates of Customer Error in 2016 are also shown for comparative purposes.

Estimates of Customer Error Overpayments across all benefits in 2017

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Benefit Review Exercise
Disability Living Allowance	945,877,233	–	–	–	–	–	–	Jan 08 - Dec 08 updated
Employment and Support Allowance	865,088,479	3,984,090	1,634,268	6,815,390	0.5%	0.2%	0.8%	Jan 17 - Dec 17
Income Support	140,825,664	617,684	–	1,509,798	0.4%	0.0%	1.1%	Jan 12 - Dec 12 updated
Jobseeker's Allowance	106,128,881	100,989	–	300,187	0.1%	0.0%	0.3%	Jan 17 - Dec 17
State Pension	2,255,765,851	–	–	–	–	–	–	Jan 09 - Dec 09 updated
State Pension Credit	253,289,069	1,937,907	731,111	3,574,110	0.8%	0.3%	1.4%	Jan 17 - Dec 17
Attendance Allowance	199,502,614	–	–	–	–	–	–	Proxied using DLA
Bereavement Benefit	17,644,110	16,790	–	49,907	0.1%	0.0%	0.3%	Proxied using JSA
Carer's Allowance	160,750,016	88,218	–	450,371	0.1%	0.0%	0.3%	Jan 10 - Dec 10 updated
Industrial Injuries Disablement Benefit	29,241,280	–	–	–	–	–	–	Proxied using DLA
Maternity Allowance	12,173,123	56,062	22,997	95,903	0.5%	0.2%	0.8%	Proxied using ESA
Social Fund (excl. Crisis Loans)	58,098,505	55,285	–	164,332	0.1%	0.0%	0.3%	Proxied using JSA
Widow's Benefit	1,158,391	1,102	–	3,277	0.1%	0.0%	0.3%	Proxied using JSA
Personal Independence Payments	122,815,295	–	–	–	–	–	–	Proxied using DLA
Universal Credit	307,656	293	–	870	0.1%	0.0%	0.3%	Proxied using JSA
Other Expenditure (Non-NIF)	64,769,535	29,266	13,622	48,130	0.0%	0.0%	0.1%	Proxied using combination of results
Christmas Bonus (Contributory Only)	3,508,811	4,657	2,792	6,976	0.1%	0.1%	0.2%	Proxied using overall results

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Benefit Review Exercise
Incapacity Benefit	(649,077)	–	–	–	–	–	–	–
Social Fund (Crisis Loans)	(60,997)	–	–	–	–	–	–	–
Social Security Benefits	**5,236,234,440**	**6,892,342**	**–**	**–**	**0.1%**	**–**	**–**	**–**
Housing Benefit Tenants	623,248,688	4,815,729	1,409,588	9,144,634	0.8%	0.2%	1.5%	Jan 17 - Dec 17
Housing Benefit Owner Occupier	37,889,655	1,141,847	521,171	1,883,947	3.0%	1.4%	5.0%	Jan 17 - Dec 17
Housing Benefit	**661,138,343**	**5,957,576**	**–**	**–**	**0.9%**	**–**	**–**	**–**
Total	**5,897,372,783**	**12,849,918**	**8,430,654**	**18,414,556**	**0.2%**	**0.1%**	**0.3%**	**–**

Estimates of customer error overpayments across all benefits in 2016

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Benefit Review Exercise
Disability Living Allowance	1,026,272,247	–	–	–	–	–	–	Jan 08 - Dec 08 updated
Employment and Support Allowance	840,829,736	2,261,425	818,247	4,014,512	0.3%	0.1%	0.5%	Jan 16 - Dec 16
Incapacity Benefit	–	–	–	–	1.0%	0.0%	2.9%	Jan 09 - Dec 09 updated
Income Support	152,555,530	669,133	–	1,635,554	0.4%	0.0%	1.1%	Jan 12 - Dec 12 updated
Jobseeker's Allowance	125,279,056	24,591	–	60,060	–	0.0%	0.0%	Jan 16 - Dec 16
State Pension	2,202,006,855	–	–	–	–	–	–	Jan 09 - Dec 09 updated
State Pension Credit	270,943,201	3,910,995	2,124,652	6,052,992	1.4%	0.8%	2.2%	Jan 16 - Dec 16
Attendance Allowance	201,153,545	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bereavement Benefit	18,614,818	3,654	–	8,924	–	0.0%	0.0%	Proxied using JSA
Carer's Allowance	154,862,686	84,987	–	433,877	0.1%	0.0%	0.3%	Jan 10 - Dec 10 updated
Industrial Injuries Disablement Benefit	29,657,146	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Maternity Allowance	12,766,068	34,335	12,423	60,951	0.3%	0.1%	0.5%	Proxied using ESA
Social Fund	80,863,227	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Widow's Benefit	1,323,868	260	–	635	–	0.0%	0.0%	Proxied using JSA
Incapacity Benefit v2	(739,901)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Personal Independence Payments	5,382,835	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other Expenditure (Non-NIF)	66,621,041	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Christmas Bonus (Contributory Only)	3,521,507	4,744	3,093	6,748	0.1%	0.1%	0.2%	Proxy Exercise
Social Security Benefits	**5,191,913,465**	**6,994,123**	**–**	**–**	**0.1%**	**–**	**–**	**–**
Housing Benefit Tenants	664,616,389	3,334,895	1,074,897	6,826,913	0.5%	0.2%	1.0%	Jan 16 - Dec 16
Housing Benefit Owner Occupier	39,064,270	1,347,194	891,019	1,845,237	3.4%	2.3%	4.7%	Jan 16 - Dec 16
Housing Benefit	**703,680,659**	**4,682,089**	**–**	**–**	**0.7%**	**–**	**–**	**–**
Total	**5,895,594,124**	**11,676,212**	**8,325,343**	**16,276,363**	**0.2%**	**0.1%**	**0.3%**	**–**

Customer Fraud - Overpayments

Customer Fraud occurs where the basic conditions of entitlement have not been met, where the customer could reasonably be expected to be aware of the effect on entitlement to benefit and the customer has deliberately not reported relevant information. The table below sets out the estimate of Customer Fraud in 2017. Estimates of Customer Fraud in 2016 are also shown for comparative purposes.

Estimates of customer fraud overpayments across all benefits in 2017

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Benefit Review Exercise
Disability Living Allowance	945,877,233	–	–	–	–	–	–	Jan 08 - Dec 08 updated
Employment and Support Allowance	865,088,479	16,460,410	8,763,336	26,091,488	1.9%	1.0%	3.0%	Jan 17 - Dec 17
Income Support	140,825,664	1,025,813	–	2,544,865	0.7%	0.0%	1.8%	Jan 12 - Dec 12 updated
Jobseeker's Allowance	106,128,881	4,236,968	1,996,545	6,895,509	4.0%	1.9%	6.5%	Jan 17 - Dec 17
State Pension	2,255,765,851	–	–	–	–	–	–	Jan 09 - Dec 09 updated
State Pension Credit	253,289,069	9,900,470	5,848,983	14,873,329	3.9%	2.3%	5.9%	Jan 17 - Dec 17
Attendance Allowance	199,502,614	–	–	–	–	–	–	Proxied using DLA
Bereavement Benefit	17,644,110	704,403	331,929	1,146,390	4.0%	1.9%	6.5%	Proxied using JSA
Carer's Allowance	160,750,016	1,935,577	–	5,936,669	1.2%	0.0%	3.7%	Jan 10 - Dec 10 updated
Industrial Injuries Disablement Benefit	29,241,280	–	–	–	–	–	–	Proxied using DLA
Maternity Allowance	12,173,123	231,623	123,314	367,147	1.9%	1.0%	3.0%	Proxied using ESA
Social Fund (excl. Crisis Loans)	58,098,505	2,319,458	1,092,976	3,774,833	4.0%	1.9%	6.5%	Proxied using JSA
Widow's Benefit	1,158,391	46,246	21,792	75,264	4.0%	1.9%	6.5%	Proxied using JSA
Personal Independence Payments	122,815,295	–	–	–	–	–	–	Proxied using DLA
Universal Credit	307,656	12,283	5,788	19,989	4.0%	1.9%	6.5%	Proxied using JSA
Other Expenditure (Non-NIF)	64,769,535	148,189	95,940	213,439	0.2%	0.1%	0.3%	Proxied using combination of results
Christmas Bonus (Contributory Only)	3,508,811	25,035	18,459	33,217	0.7%	0.5%	0.9%	Proxied using overall results

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Benefit Review Exercise
Incapacity Benefit	(649,077)	–	–	–	–	–	–	–
Social Fund (Crisis Loans)	(60,997)	–	–	–	–	–	–	–
Social Security Benefits	**5,236,234,440**	**37,046,478**	**–**	**–**	**0.7%**	**–**	**–**	**–**
Housing Benefit Tenants	623,248,688	15,728,037	5,911,202	27,767,093	2.5%	0.9%	4.5%	Jan 17 - Dec 17
Housing Benefit Owner Occupier	37,889,655	2,288,285	1,403,050	3,260,107	6.0%	3.7%	8.6%	Jan 17 - Dec 17
Housing Benefit	**661,138,343**	**18,016,322**	**–**	**–**	**2.7%**	**–**	**–**	**–**
Total	**5,897,372,783**	**55,062,800**	**41,243,530**	**72,124,202**	**0.9%**	**0.7%**	**1.2%**	**–**

Estimates of customer fraud overpayments across all benefits in 2016

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Benefit Review Exercise
Disability Living Allowance	1,026,272,247	–	–	–	–	–	–	Jan 08 - Dec 08 updated
Employment and Support Allowance	840,829,736	14,047,195	8,943,468	19,770,558	1.7%	1.1%	2.4%	Jan 16 - Dec 16
Incapacity Benefit	–	–	–	–	2.2%	0.0%	5.4%	Jan 09 - Dec 09 updated
Income Support	152,555,530	1,111,257	–	2,756,836	0.7%	0.0%	1.8%	Jan 12 - Dec 12 updated
Jobseeker's Allowance	125,279,056	4,082,770	2,236,277	6,110,151	3.3%	1.8%	4.9%	Jan 16 - Dec 16
State Pension	2,202,006,855	–	–	–	–	–	–	Jan 09 - Dec 09 updated
State Pension Credit	270,943,201	7,133,653	4,626,425	10,031,889	2.6%	1.7%	3.7%	Jan 16 - Dec 16
Attendance Allowance	201,153,545	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bereavement Benefit	18,614,818	606,646	332,281	907,888	3.3%	1.8%	4.9%	Proxied using JSA
Carer's Allowance	154,862,686	1,864,688	–	5,719,243	1.2%	0.0%	3.7%	Jan 10 - Dec 10 updated
Industrial Injuries Disablement Benefit	29,657,146	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Maternity Allowance	12,766,068	213,274	135,786	300,170	1.7%	1.1%	2.4%	Proxied using ESA
Social Fund	80,863,227	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Widow's Benefit	1,323,868	43,144	23,632	64,568	3.3%	1.8%	4.9%	Proxied using JSA
Incapacity Benefit v2	(739,901)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Personal Independence Payments	5,382,835	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other Expenditure (Non-NIF)	66,621,041	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Benefit Review Exercise
Christmas Bonus (Contributory Only)	3,521,507	19,753	15,106	25,137	0.6%	0.4%	0.7%	Proxy Exercise
Social Security Benefits	**5,191,913,465**	**29,122,381**	–	–	**0.6%**	–	–	–
Housing Benefit Tenants	664,616,389	20,040,858	12,108,186	29,072,007	3.0%	1.8%	4.4%	Jan 16 - Dec 16
Housing Benefit Owner Occupier	39,064,270	2,514,891	1,742,216	3,367,143	6.4%	4.5%	8.6%	Jan 16 - Dec 16
Housing Benefit	**703,680,659**	**22,555,749**	–	–	**3.2%**	–	–	–
Total	**5,895,594,124**	**51,678,129**	**41,171,583**	**63,728,823**	**0.9%**	**0.7%**	**1.1%**	–

B: Strategies to Reduce Social Security Benefit Fraud and Error

The Department for Communities administers 33 benefits equating to a total benefit spend of £5,236 million.

Reduction of fraud and error has been a long-standing commitment at the core of the Department's business priorities. The strategy is underpinned by five key principles, these are:

Prevent	Detect	Correct	Punish	Deter
Stop fraud and error getting into the system in the first place	Increasing the likelihood of finding incorrect and fraudulent claims	Quickly putting incorrect cases right, getting back what we're owed	Strengthening sanctions for those caught	Publicising tough punishments and the high likelihood of being caught

The Department's performance in reducing and maintaining low levels of fraud and error demonstrate the long term strategies are working. Total overpayments from fraud and error have been maintained at 1.2% of total expenditure or lower for the past decade. Nevertheless, the commitment to further reduce fraud and error remains.

Current and proposed activities are designed to be proportionate, represent value for money with regard to the cost of control, facilitate customer accessibility, ensure timely benefit payments, and deliver impacts on fraud and error. The Department also seeks to reduce customer mistakes by influencing customer behaviour to report changes promptly where failure to do so may lead to over and underpayments.

Benefit & Information Security Boards

All change carries elements of risk and the introduction of Universal Credit is no exception; for example, inherited fraud and error from Tax Credits, and new types of frauds involving child minding payments, landlords, and cyber frauds. In response to this risk, the Department's Fraud and Error Reduction Board was disbanded and replaced by two Benefit & Information Security Boards (BISB).

- BISB (Operations) to oversee all counter fraud and error Operational activities
- BISB (Transformation) to set the strategic direction of the organisation

Both Boards are responsible to the Department Management Board, and have the shared aim of providing assurance of effective counter fraud and error activities. Mitigating the losses from fraud and error is one of the Department's key priorities. The approach to the challenge is multi-dimensional.

Official Error Strategy and Activities

For 2017, losses from official error (excluding housing benefit) were 0.4%. Error Reduction Division allocates funds to Error Reduction Teams located in the Regions and Central Benefits for the specific purpose of reducing staff error and ensuring strong levels of accuracy. Funding is allocated on the basis of risk and takes into consideration the monetary value of error in each benefit alongside factors such as the deployment of resources and priorities within the Department.

Improving financial accuracy is as much about detecting and correcting underpayments as it is about overpayments. Addressing overpayments and underpayments are key functions of Error Reduction activity.

The Department's Standards Assurance Unit (SAU) measures and reports the levels of fraud and error in benefits to influence the direction to be undertaken to combat fraud and error. SAU examines the work undertaken by the Error Reduction Teams in the Regions and Central Benefits to provide an independent assurance to Error Reduction management that work is completed in an accurate manner.

During 2017-18, error reduction activity amounted to just over 49,000 actions. This led to the adjustment of benefit in 5,757 cases, with a total monetary value of over £15.9 million. In comparison, during 2016-17, error reduction activity amounted to just over 67,600 actions. This led to the adjustment of benefit in 8,300 cases, with a total monetary value of over £21.6 million.

The Department is committed to the reduction of staff error and has a wide range of control mechanisms built into benefit administration to ensure high levels of financial accuracy. These mechanisms include extensive training and consolidation following training; the application of benchmark standards for staff; a programme of regular checks and controls to prevent potential incorrectness; and the measurement and reporting on Department performance within this area.

Customer Fraud and Error Single Investigation Service

The integrated Single Investigation Service (SIS) was established in April 2013 to form a single, more cohesive organisation to tackle customer fraud and error. Using information from diverse sources, the Department identifies and focuses on threats posing greatest risk. Cases are managed through three approaches - customer compliance, case intervention and criminal fraud investigation, to detect and correct fraud and error and apply penalties where appropriate to deter further abuse.

Criminal Investigation: During 2017-18, 3,092 fraud investigations were undertaken leading to 681 penalties, formal cautions, or convictions. In 2017-18 the monetary value of adjustments arising from the discovery of fraud was estimated to be £9.0 million. In comparison, during 2016-17, 4,138 fraud investigations led to monetary value of adjustments of £9.0 million.

Customer Compliance interviews have continued to generate very positive outcomes in the correction and prevention of customer error. In the past year (2017-18) Customer Compliance Officers within SIS carried out 3,954 Compliance Interviews resulting in changes in 26% of cases and led to over £6.3 million in benefit adjustments. This in turn freed up investigators to focus on high risk fraud cases and to maximise results from criminal investigations. In comparison, in 2016-17, Customer Compliance Officers carried out 3,749 Compliance interviews leading to £5.0 million in benefit adjustments.

Case Intervention involves contacting customers by phone or post to establish whether the circumstances of the benefit claim have changed and if necessary making correction. SIS undertook 2,464 case interventions achieving a 32% change rate with 798 adjustments. The estimated monetary value of adjustments in these cases equated to £4.7 million. In comparison, during 2016-17, SIS undertook 4,801 case interventions and made 944 adjustments to benefit. The estimated monetary value of adjustments in these cases equated to £3.2 million.

Financial Investigation Unit: For higher value fraud convictions, Debt Management's Financial Investigation Unit (FIU) uses powers granted under the Proceeds of Crime Act 2002 to recover assets. The table below presents the results of the FIU for 1 April 2017 to 31 March 2018.

	2016-17	**2017-18**
Confiscation order recoveries	£211k	£350k
Voluntary payments	£196k	£140k
Total recovery #	£406k	**£489k**

Total may not equal sum of figures due to rounding.

National Fraud Initiative: The Department has been involved in four National Fraud Initiative (NFI) data matching exercises to date. The following table reports the cases referred for criminal investigation and the resultant outcome in terms of convictions, administrative penalties and overpayments.

	NFI 2008	**NFI 2010**	**NFI 2012**	**NFI 2012B**
Referred For Criminal Investigation	1,238	486	1,274	275
Convictions	175	59	52	6
Administrative Penalty	35	24	11	1
Overpayments identified	£6.0m	£1.56M	£2.26M	£260k

Real Time Information Initiatives
The Department has now limited its intake of new NFI referrals to Housing Benefit non-passported cases, in favour of directing resources towards the new Real Time Information (RTI) matching systems that utilise real time HMRC information in respect of earnings and non-state pension income. This new referral source is a significant step forward in the Department's drive for continual improvement and maintaining low levels of customer fraud and error. The Department continues to proactively engage with DWP to confirm arrangements for the continuation of the initiative through the remainder of 2017-18 and beyond.

State Pension Credit went live for new claims in January 2017. The rollout of Wider use of Real Time Information (WuRTI) now referred to as Verify Pensions and Earnings will provide the Department with the ability to detect undeclared earnings or non-state pension income at the point of claim and to ensure the claim is correct before it is put into payment. Housing Benefit (Northern Ireland Housing Executive and Land and Property Services) then went live in September 2017. The Department's Fraud & Error Strategy Implementation Team is also monitoring the roll-out across other benefits, which will expand the use of data across the Department to enhance the targeting of fraud and error in real time.

Future Benefit Security Division Strategy

The Department continues to explore new initiatives to strengthen counter fraud and error activities, and maintain readiness for future risks. These include:

- **Joined up working** – The Department remains vigilant to the threat of organised attempts to defraud the benefit system and takes proactive steps to prevent same. The Department's Benefit Security Division is working towards a more joined up approach with other public sector bodies and is pursuing closer working relationships with other organisations such as HM Revenue & Customs, Gangmasters Licensing Authority, and the PSNI.

- **Cyber Fraud** – The introduction of Universal Credit as an online benefit brings new risks from cyber fraud. The Department has been working closely with Cabinet Office to introduce an Identity Assurance solution to secure the gateway to benefits. Verify.gov.uk uses independent certified companies to build a profile to provide assurance users are who they say they are and is vital in preventing identity theft and benefit fraud.

- **Collaborating and Partnering** – The Department recognises there are significant opportunities for collaboration between public sector authorities such as Legal Services Agency, NI Housing Executive, and Health & Social Care Business Services Organisation in the fight against customer fraud and error. These partnerships enable other organisations to benefit from expertise and experience within Benefit Security Division and promote a fairer society where public sector fraud, including benefit fraud is not tolerated.

- **Communication** – continuing to remind staff and the wider public of the need to remain vigilant and to report suspected fraud.

The Department continues to develop relationships with counter fraud partners including co-operation with the Department of Social Protection to make further inroads into cross jurisdictional customer fraud with the purpose of protecting each other's social welfare programmes.

C: Underpayments

Benefit Underpayments

The table overleaf shows the Department's total estimates of benefit underpayments for the last two years, 2017 and 2016 (all social security benefits including Housing Benefit).

Overall the figure for estimated amounts of underpayments is £27.7 million, or 0.5% of expenditure in 2016 compared to £30.2 million (0.5%) in 2016.

Estimates of underpayments across all benefits for 2017 and 2016

2017	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval
Official Error	5,897,372,783	16,941,177	11,900,534	23,771,865	0.3%	0.2%	0.4%
Customer Error	5,897,372,783	10,715,624	2,417,315	23,448,307	0.2%	0.0%	0.4%
Total Underpayments	**5,897,372,783**	**27,656,802**	**17,947,526**	**42,106,006**	**0.5%**	**0.3%**	**0.7%**

2016	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval
Official Error	5,895,594,124	19,749,128	15,008,585	26,431,295	0.3%	0.3%	0.4%
Customer Error	5,895,594,124	10,484,622	2,497,706	22,812,069	0.2%	0.0%	0.4%
Total Underpayments	5,895,594,124	30,233,750	20,945,931	44,255,779	0.5%	0.4%	0.8%

The Department monitors and estimates the level of underpayments arising from Official and Customer Error. Identifying those cases not receiving their full entitlement and correcting benefit payments is an integral part of the Department's strategy which gives equal priority to identifying and correcting underpayments and overpayments.

Official Error – Underpayments

The table below sets out the estimate of benefit underpayments due to Official Error in 2017. Estimates for 2016 are also shown for comparative purposes.

Estimates of official error underpayments across all benefits in 2017

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Benefit Review Exercise
Disability Living Allowance	945,877,233	385,361	–	1,960,329	–	0.0%	0.2%	Jan 15 - Dec 15 updated
Employment and Support Allowance	865,088,479	7,723,250	4,062,904	12,047,685	0.9%	0.5%	1.4%	Jan 17 - Dec 17
Income Support	140,825,664	303,080	–	1,159,624	0.2%	0.0%	0.8%	Jan 16 - Dec 16 updated
Jobseeker's Allowance	106,128,881	730,570	145,457	1,666,886	0.7%	0.1%	1.6%	Jan 17 - Dec 17
State Pension	2,255,765,851	1,930,063	445,655	4,254,518	0.1%	0.0%	0.2%	Jan 17 - Dec 17
State Pension Credit	253,289,069	1,264,713	134,949	3,107,123	0.5%	0.1%	1.2%	Jan 17 - Dec 17
Attendance Allowance	199,502,614	394,469	–	2,032,696	0.2%	0.0%	1.0%	Jan 14 - Dec 14 updated
Bereavement Benefit	17,644,110	60,008	–	254,661	0.3%	0.0%	1.4%	Jan 14 - Dec 14 updated
Carer's Allowance	160,750,016	–	–	–	–	–	–	Jan 14 - Dec 14 updated
Industrial Injuries Disablement Benefit	29,241,280	61,026	–	334,305	0.2%	0.0%	1.1%	Jan 14 - Dec 14 updated
Maternity Allowance	12,173,123	23,431	–	96,400	0.2%	0.0%	0.8%	Jan 14 - Dec 14 updated
Social Fund (excl. Crisis Loans)	58,098,505	130,826	–	658,791	0.2%	0.0%	1.1%	Jan 13 - Dec 13 / Jan 16 - Dec 16 updated
Widow's Benefit	1,158,391	20,947	–	70,616	1.8%	0.0%	6.1%	Jan 12 - Dec 12 updated
Personal Independence Payments	122,815,295	50,036	–	254,534	0.0%	0.0%	0.2%	Proxied using DLA
Universal Credit	307,656	2,118	422	4,832	0.7%	0.1%	1.6%	Proxied using JSA
Other Expenditure (Non-NIF)	64,769,535	108,643	66,332	169,999	0.2%	0.1%	0.3%	Proxied using combination of results

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Benefit Review Exercise
Christmas Bonus (Contributory Only)	3,508,811	8,881	5,936	12,881	0.3%	0.2%	0.4%	Proxied using overall results
Incapacity Benefit	(649,077)	–	–	–	–	–	–	–
Social Fund (Crisis Loans)	(60,997)	–	–	–	–	–	–	–
Social Security Benefits	**5,236,234,440**	**13,197,422**	**–**	**–**	**0.3%**	**–**	**–**	**–**
Housing Benefit Tenants	623,248,688	3,587,953	1,022,450	7,039,597	0.6%	0.2%	1.1%	Jan 17 - Dec 17
Housing Benefit Owner Occupier	37,889,655	155,803	41,472	319,385	0.4%	0.1%	0.8%	Jan 17 - Dec 17
Housing Benefit	**661,138,343**	**3,743,756**	**–**	**–**	**0.6%**	**–**	**–**	**–**
Total	**5,897,372,783**	**16,941,177**	**11,900,534**	**23,771,865**	**0.3%**	**0.2%**	**0.4%**	**–**

Estimates of official error underpayments across all benefits in 2016

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Benefit Review Exercise
Disability Living Allowance	1,026,272,247	418,115	–	2,126,948	0.0%	0.0%	0.2%	Jan 15 - Dec 15 updated
Employment and Support Allowance	840,829,736	10,040,503	6,500,447	14,208,995	1.2%	0.8%	1.7%	Jan 16 - Dec 16
Incapacity Benefit	–	–	–	–	0.5%	0.0%	1.1%	Jan 11 - Dec 11 updated
Income Support	152,555,530	328,325	46,298	792,269	0.2%	0.0%	0.5%	Jan 16 - Dec 16
Jobseeker's Allowance	125,279,056	71,939	4,820	171,375	0.1%	0.0%	0.1%	Jan 16 - Dec 16
State Pension	2,202,006,855	2,750,756	525,896	6,710,660	0.1%	0.0%	0.3%	Jan 16 - Dec 16
State Pension Credit	270,943,201	1,654,050	742,439	2,804,436	0.6%	0.3%	1.0%	Jan 16 - Dec 16
Attendance Allowance	201,153,545	397,733	–	2,049,517	0.2%	0.0%	1.0%	Jan 14 - Dec 14 updated
Bereavement Benefit	18,614,818	63,309	–	268,672	0.3%	0.0%	1.4%	Jan 14 - Dec 14 updated
Carer's Allowance	154,862,686	–	–	–	–	–	–	Jan 14 - Dec 14 updated
Industrial Injuries Disablement Benefit	29,657,146	61,894	–	339,060	0.2%	0.0%	1.1%	Jan 14 - Dec 14 updated
Maternity Allowance	12,766,068	24,572	–	101,095	0.2%	0.0%	0.8%	Jan 14 - Dec 14 updated
Social Fund	80,863,227	182,254	8,685	553,752	0.2%	0.0%	0.7%	Joint Exercise
Widow's Benefit	1,323,868	23,940	–	80,704	1.8%	0.0%	6.1%	Jan 12 - Dec 12 updated
Incapacity Benefit v2	(739,901)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Personal Independence Payments	5,382,835	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other Expenditure (Non-NIF)	66,621,041	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Benefit Review Exercise
Christmas Bonus (Contributory Only)	3,521,507	10,871	7,852	15,192	0.3%	0.2%	0.4%	Proxy Exercise
Social Security Benefits	**5,191,913,465**	**16,028,262**	–	–	**0.3%**	–	–	–
Housing Benefit Tenants	664,616,389	3,393,554	1,769,372	5,409,241	0.5%	0.3%	0.8%	Jan 16 - Dec 16
Housing Benefit Owner Occupier	39,064,270	327,313	126,749	588,214	0.8%	0.3%	1.5%	Jan 16 - Dec 16
Housing Benefit	**703,680,659**	**3,720,867**	–	–	**0.5%**	–	–	–
Total	**5,895,594,124**	**19,749,128**	**15,008,585**	**26,431,295**	**0.3%**	**0.3%**	**0.4%**	–

Customer Error - Underpayments

The table below sets out the estimate of benefit underpayments due to Official Error in 2017. Estimates for 2016 are also shown for comparative purposes.

Estimates of customer error underpayments across all benefits in 2017

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Benefit Review Exercise
Disability Living Allowance	945,877,233	–	–	–	–	–	–	Jan 08 - Dec 08 updated
Employment and Support Allowance	865,088,479	2,610,557	589,831	5,118,382	0.3%	0.1%	0.6%	Jan 17 - Dec 17
Income Support	140,825,664	100,857	–	519,896	0.1%	0.0%	0.4%	Jan 12 - Dec 12 updated
Jobseeker's Allowance	106,128,881	–	–	–	–	–	–	Jan 17 - Dec 17
State Pension	2,255,765,851	4,184,719	–	16,416,832	0.2%	0.0%	0.7%	Jan 09 - Dec 09 updated
State Pension Credit	253,289,069	2,122,605	667,865	4,100,090	0.8%	0.3%	1.6%	Jan 17 - Dec 17
Attendance Allowance	199,502,614	–	–	–	–	–	–	Proxied using DLA
Bereavement Benefit	17,644,110	–	–	–	–	–	–	Proxied using JSA
Carer's Allowance	160,750,016	–	–	–	–	–	–	Jan 10 - Dec 10 updated
Industrial Injuries Disablement Benefit	29,241,280	–	–	–	–	–	–	Proxied using DLA
Maternity Allowance	12,173,123	36,735	8,300	72,023	0.3%	0.1%	0.6%	Proxied using ESA
Social Fund (excl. Crisis Loans)	58,098,505	–	–	–	–	–	–	Proxied using JSA
Widow's Benefit	1,158,391	–	–	–	–	–	–	Proxied using JSA
Personal Independence Payments	122,815,295	–	–	–	–	–	–	Proxied using DLA
Universal Credit	307,656	–	–	–	–	–	–	Proxied using JSA
Other Expenditure (Non-NIF)	64,769,535	125,403	–	410,144	0.2%	0.0%	0.6%	Proxied using combination of results
Christmas Bonus (Contributory Only)	3,508,811	6,148	559	14,736	0.2%	0.0%	0.4%	Proxied using overall results

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Benefit Review Exercise
Incapacity Benefit	(649,077)	–	–	–	–	–	–	–
Social Fund (Crisis Loans)	(60,997)	–	–	–	–	–	–	–
Social Security Benefits	**5,236,234,440**	**9,187,023**	**–**	**–**	**0.2%**	**–**	**–**	**–**
Housing Benefit Tenants	623,248,688	1,216,639	225,159	2,597,720	0.2%	0.0%	0.4%	Jan 17 - Dec 17
Housing Benefit Owner Occupier	37,889,655	311,962	39,232	674,752	0.8%	0.1%	1.8%	Jan 17 - Dec 17
Housing Benefit	**661,138,343**	**1,528,601**	**–**	**–**	**0.2%**	**–**	**–**	**–**
Total	**5,897,372,783**	**10,715,624**	**2,417,315**	**23,448,307**	**0.2%**	**0.0%**	**0.4%**	**–**

Estimates of customer error underpayments across all benefits in 2016

Benefit	Expenditure £	Monetary Value of Error £	Lower Confidence Interval £	Upper Confidence Interval £	Monetary Value of Error as % of Expenditure	Lower Confidence Interval	Upper Confidence Interval	Period of Benefit Review Exercise
Disability Living Allowance	1,026,272,247	–	–	–	–	–	–	Jan 08 - Dec 08 updated
Employment and Support Allowance	840,829,736	1,969,171	671,835	3,536,509	0.2%	0.1%	0.4%	Jan 16 - Dec 16
Incapacity Benefit	–	–	–	–	–	–	–	Jan 09 - Dec 09 updated
Income Support	152,555,530	109,257	–	563,201	0.1%	0.0%	0.4%	Jan 12 - Dec 12 updated
Jobseeker's Allowance	125,279,056	239,153	5,423	605,958	0.2%	0.0%	0.5%	Jan 16 - Dec 16
State Pension	2,202,006,855	4,084,989	–	16,025,589	0.2%	0.0%	0.7%	Jan 09 - Dec 09 updated
State Pension Credit	270,943,201	1,254,047	339,471	2,424,071	0.5%	0.1%	0.9%	Jan 16 - Dec 16
Attendance Allowance	201,153,545	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bereavement Benefit	18,614,818	35,535	806	90,037	0.2%	0.0%	0.5%	Proxied using JSA
Carer's Allowance	154,862,686	–	–	–	–	–	–	Jan 10 - Dec 10 updated
Industrial Injuries Disablement Benefit	29,657,146	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Maternity Allowance	12,766,068	29,897	10,200	53,694	0.2%	0.1%	0.4%	Proxied using ESA
Social Fund	80,863,227	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Widow's Benefit	1,323,868	2,527	57	6,403	0.2%	0.0%	0.5%	Proxied using JSA
Incapacity Benefit v2	(739,901)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Personal Independence Payments	5,382,835	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other Expenditure (Non-NIF)	66,621,041	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Christmas Bonus (Contributory Only)	3,521,507	5,243	–	13,465	0.1%	0.0%	0.4%	Proxy Exercise
Social Security Benefits	**5,191,913,465**	**7,729,821**	**–**	**19,843,765**	**0.1%**	**0.0%**	**0.4%**	**–**
Housing Benefit Tenants	664,616,389	2,531,492	945,319	4,809,912	0.4%	0.1%	0.7%	Jan 16 - Dec 16
Housing Benefit Owner Occupier	39,064,270	223,309	84,907	387,936	0.6%	0.2%	1.0%	Jan 16 - Dec 16
Housing Benefit	**703,680,659**	**2,754,801**	**–**	**–**	**0.4%**	**–**	**–**	**–**
Total	**5,895,594,124**	**10,484,622**	**2,497,706**	**22,812,069**	**0.2%**	**0.0%**	**0.4%**	**–**

D: Disability Living Allowance (DLA) - ‘Change in Customers’ Circumstances’ cases

The 2006 DLA Benefit Review identified cases where the change in customers’ needs had been so gradual that it would have been unreasonable to expect the customer to know at which point their entitlement to DLA might have changed. These cases do not result in a recoverable overpayment as the Department cannot quantify or define when the customer’s change occurred. Under the specific terms of benefit legislation (to establish a recoverable overpayment) it is necessary for the Department to prove that entitlement to DLA is incorrect. Cases in this sub-category are therefore technically and legally correct but are reassessed after review activity. (For further clarification on this issue see regulation 7(2)(c)(ii) of the Social Security and Child Support (Decisions and Appeals) Regulations (Northern Ireland) 1999 (S.R. 1999 No. 162); regulation 7(2)(c)(ii) was substituted by regulation 2(5) of S.R. 1999 No. 267).

The difference between what claimants in these ‘change in customers’ circumstances’ cases are receiving in excess of DLA entitlement and what they would potentially receive if their benefit was reassessed was estimated to be around £38.0 million, 5.7% of DLA expenditure in 2008. Since there was no DLA Benefit Review in 2017, the 2017 estimate for DLA ‘change in customer circumstances’ overpayments is estimated by applying the 2008 percentage. The 2017 estimate is £53.6 million, 5.7% of expenditure. In comparison the 2016 estimate was £58.2 million, 5.7% of expenditure. These figures are not included in the total figures in the respective tables above.

The difference between what claimants in the DLA ‘change in customers’ circumstances’ cases are receiving below their DLA entitlement and what they would potentially have been due to receive if their benefit was reassessed was estimated to be £19.4 million, 2.9% of expenditure in 2008. Since there was no DLA Benefit Review in 2017, the 2017 estimate for DLA ‘change in customers’ circumstances’ underpayments is estimated by applying the 2008 percentage. The 2017 estimate is £27.4 million, 2.9% of expenditure. In comparison the 2015 estimate was £29.7 million, 2.9% of expenditure. These figures are not included in the total figures in the respective tables above.

With the introduction of Personal Independence Payment in June 2016; the Department concluded its Periodic Enquiry process.

24. Third-Party Assets

The Child Maintenance Service operates a Client Funds Account to control the receipt of child maintenance and fees from non-resident parents and parents with care. Child maintenance and fees are collected and paid over respectively to persons with care or to the Department (maintenance and fees). These are not Departmental assets and are not included in the statement of financial position.

The Client Funds Account is attached to these accounts at Annex A.

25. Entities within the departmental boundary

The entities within the boundary during 2017-18 were as follows:

Independent Statutory Bodies

Office of the Discretionary Support Commissioner

Advisory Non-Departmental Public Bodies

Historic Monuments Council
Historic Buildings Council

Advisory Bodies

Charities Advisory Committee
Ministerial Advisory Group

26. Events after the Reporting Period

There were no adjusting or non-adjusting events between the end of the reporting period and the date the financial statements were authorised for issue.

The Accounting Officer authorised the issue of these financial statements on 29 June 2018.

Report of the Comptroller and Auditor General

1.0 Introduction

1.1 The Department for Communities (the Department) has responsibility for housing, urban regeneration, community development, social security and child support. The annual budget for the Department is £7 billion, of which approximately £5.9 billion is allocated to benefit expenditure.

1.2 In 2017-18 expenditure on benefits paid directly by the Department and provided by the Northern Ireland Housing Executive (NIHE) and Land and Property Services (LPS) for housing benefits was £5,897 million. The Department's estimate of the overall level of overpayments in 2017-18 was £91.4 million which represents 1.5 per cent of total annual benefit expenditure (2016-17: £87.7 million or 1.5 per cent). The Department's estimate of the overall level of under payments in 2017-18 was £27.7 million which represents 0.5 per cent of total annual benefit expenditure (2016-17: £30.2 million or 0.5 per cent).

Welfare Reform (section 2)

1.3 Welfare reform is a programme introduced by the by the Westminster government since 2010. The aim of welfare reform is to:

- make the benefit system fairer and more affordable;
- reduce poverty, worklessness and welfare dependency; and
- reduce levels of fraud and error[1].

1.4 Welfare policy is devolved to the Northern Ireland Assembly. Welfare expenditure in 2017-18 was £5.9 billion, of which £2.6 billion was funded from the National Insurance Fund. There is an agreed principle that welfare policy in Northern Ireland will broadly mirror that in place in the rest of the UK. Some of the key changes introduced by Welfare Reform in Northern Ireland are described further in section 2.

Fraud and error in benefit expenditure (section 3)

1.5 Payments to social security benefit claimants paid directly by the Department was £5,236 million which represents 89 per cent of total benefit expenditure. The estimated level of overpayments in this expenditure was £64.2 million (1.2 per cent of benefit expenditure) whilst the estimated level of underpayments was £22.4 million (0.4 per cent of benefit expenditure). The estimated level of overpayments has increased from £53.2 million (1.0 per cent) since last year whilst the estimated level of underpayments has decreased from £23.8 million (0.5 per cent) last year.

[1] www.gov.uk/government/publications/2010-to-2015-government-policy-welfare-reform/2010-to-2015- government-policy-welfare-reform

1.6 NIHE was responsible for the payment of £623 million to claimants of Housing Benefit. This represents 11 per cent of total benefit expenditure and is included within the NIHE's accounts and the Department's accounts. The estimated level of overpayments due to fraud and error within this expenditure was £22.9 million (3.7 per cent of housing benefit expenditure) whilst the estimated level of underpayments was £4.8 million (0.8 per cent of housing benefit expenditure). The estimated level of overpayments has decreased from £28.8 million (4.3 per cent of housing benefit expenditure) since last year whilst the estimated level of underpayments has decreased from £5.9 million (0.9 per cent of housing benefit expenditure) last year. **I considered this to be material and my regularity audit opinion was qualified on NIHE's accounts in respect of Housing Benefit expenditure. I have included this matter in my report on NIHE's 2017-18 accounts.**

1.7 Land and Property Services (LPS) administers £38 million in Housing Benefit; this expenditure is included in the LPS Statement of Rate Levy Account and the Department's accounts. Housing Benefit is paid to claimants who own their home and who are entitled to apply for a rates rebate if they have low income and are suffering financial hardship. There is estimated to be a substantial amount of overpayments due to fraud and error within these payments amounting to £4.3 million (11.4 per cent of LPS housing benefit expenditure). The estimated level of underpayments is estimated to be £0.5 million (1.2 per cent of LPS housing benefit expenditure). The estimated level of overpayments has decreased from £5.6 million (14.4 per cent of LPS housing benefit expenditure) last year whilst the estimated level of underpayments has decreased from £0.6 million (1.4 per cent of LPS housing benefit expenditure) last year. My regularity audit opinion was qualified in the 2016-17[2] Statement of Rate Levy Account in respect of Housing Benefit expenditure.

1.8 Fraud and error remains a significant problem in the administration of benefit expenditure. The Department continues to face the challenge of administering a changing and complex benefits system in a way which is both cost effective and ensures maximum accuracy in delivering the correct level of benefits to those entitled to receive them. Overpayments arising from fraud and error increase costs for taxpayers and reduce public resources available for other purposes. Underpayments mean households are not getting the support they are entitled to.

[2] The 2017-18 Statement of Rate Levy Account will not be certified until after the Summer Recess.

1.9 All overpayments are considered irregular. Underpayments due to customer error are not considered irregular; only underpayments arising from official error are considered irregular. Section 4 of this report set out the reasons and context for my qualified audit opinion: the trends; reasons behind fraud and error; and actions to reduce fraud and error.

1.10 State Pension expenditure of £2,256 million in 2017-18 (2016-17: £2,202 million) is included within the £5,236 million paid by the Department (paragraph 1.5). The Department has found no evidence of fraud within State Pension payments and the estimated level of error within State Pension is not significant. I have not qualified my opinion on this expenditure - see paragraph 3.22

Conclusion (section 4)

1.11 I have qualified my regularity opinion on the 2017-18 Departmental Resource Accounts due to material levels of fraud and error in benefit expenditure, excluding State Pension. State Pension continues to demonstrate a very low level of error, while overpayments in other benefits increased to £91.2 million the level of overpayments remained at 1.5 per cent for the 2017-18 year. Underpayments, excluding State Pension, decreased to £21.5 million remaining at 0.5 per cent.

2.0 Welfare Reform

2.1 Under the Welfare Reform Act 2012, the government has been rolling out benefit changes in England, Scotland and Wales since 2013, designed in part to reduce benefit expenditure. In October 2012, the Assembly introduced the Welfare Reform Bill to implement similar changes in Northern Ireland; however, the Bill fell at its final stage in May 2015. This caused a delay in Northern Ireland maintaining parity with benefit policy in Great Britain. As a consequence, deductions were made by Westminster to the devolved budget to reflect the higher levels of Northern Ireland benefit expenditure which had resulted from the absence of welfare reform.

2.2 Amidst growing political instability, the Fresh Start Agreement allowed the Westminster government to legislate for welfare reform in Northern Ireland. As a result, the Welfare Reform (NI) Order 2015, introduced on 19 November 2015, makes provisions equivalent to the 2012 Act but with some specific changes, including Executive-funded top-ups.

Mitigation

2.3 Under the Fresh Start Agreement, the Northern Ireland Executive identified £585 million from Executive funds over four years to ‘top-up’ the Northern Ireland welfare arrangements, with a review due in 2018-19. The Executive established a working group to bring forward recommendations to maximise the use of the additional resources.

2.4 In January 2016, the Welfare Reform Mitigation Group recommended a three strand strategy to address the impact of reform in Northern Ireland. The report (referred to as the Evason Report) proposed a series of supplementary payments to carers, people suffering ill health and families on low income. The report estimated a funding requirement of £501 million to implement and administer the measures over the four year period to 2019-20, with a further £8 million of funding for Independent Advisory Services; a total of £509 million was subsequently approved by the Northern Ireland Executive.

Implementation

2.5 With the exception of mitigation arrangements, welfare reform will reflect developments in GB but with a delay in introducing the new benefits. The most significant elements of Welfare reform that affect Northern Ireland are Personal Independence Payment (PIP), introduced from June 2016 and Universal Credit (UC), introduced from September 2017. Other elements of welfare reform include the Benefits Cap, Social Sector Size Criteria, Jobseekers Allowance Claimant Commitment, improving the ESA Work Capability Assessment and increased penalties for benefit fraud.

Personal Independence Payment

2.6 Personal Independence Payment (PIP) is a new benefit for working age customers (16-64 years) which is replacing Disability Living Allowance (DLA). PIP went live in Northern Ireland on 20 June 2016 applying to all new working- age customers where their disability or long-term health condition affects their daily life. In addition to new claims for PIP, all existing DLA working age customers (16-64 years), of which there are approximately 125,000, will be invited to claim PIP and be reassessed for it over a three year period.

Universal Credit

2.7 Universal Credit was introduced in Northern Ireland during 2017 for working-age claimants aged 18 to 64 years old. It is claimed online and consists of a basic personal amount with additional amounts for disability, caring responsibilities, children and housing costs. For any money earned over the 'work allowance' Universal Credit will be gradually reduced. This allows a claimant to take a temporary or seasonal job without having to make a brand new claim or experience any gaps between paydays when moving in and out of work. Claimants will be able to access on-line calculations to estimate the benefit of working at any number of hours.

2.8 Universal Credit integrates all means-tested working age welfare benefits and in-work tax credits into a single programme. The aim is that the Universal Credit system will improve work incentives by:

- ensuring that support is reduced at a consistent and predictable rate, and that people generally keep a higher proportion of their earnings;
- ensuring that work pays and, in particular, low-hours of work; and
- reducing the complexity of the system, making clear the potential gains to work and reducing the risks associated with moves into employment.

2.9 Universal Credit will eventually replace the following six benefits:

- Income-based Jobseeker's Allowance
- Child Tax Credit
- Income-related Employment and Support Allowance
- Working Tax Credit
- Income Support
- Housing Benefit

2.10 Universal Credit will initially apply to new claims, with subsequent phasing in for existing benefit and tax credit recipients from September 2017 until December 2018. Individuals currently in receipt of any of the six benefits that Universal Credit will replace will be transferred to Universal Credit between July 2019 and March 2022. Where people move from the legacy schemes to universal credit, transitional protection will be available for a time to mitigate against financial loss to the claimant arising from the change.

Further Report

2.11 I intend to publish a report later in 2018 which will look in more detail at welfare reform in Northern Ireland.

3.0 Fraud and error in benefit expenditure

3.1 I am required under the Government Resources and Accounts Act (Northern Ireland) 2001 to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them. The criteria used to determine entitlement to each benefit, and the method used to calculate the amount due to be paid, are set out in legislation. Where fraud or error has resulted in an over or underpayment of benefit to an individual who is either not entitled to that benefit, or is paid at a rate which differs from that specified in the legislation, these payments made are not in conformity with the governing legislation and are irregular.

3.2 Benefit payments are susceptible to both deliberate fraud and unintended error by claimants and the Department, and entitlement is based on a range of eligibility criteria; it relies on claimants' accurate and timely notification of changes of circumstances; and the complexity of benefits can cause confusion and genuine error. Some benefits, mainly those with means-tested entitlements, are more susceptible to fraud and error due to their complexity.

3.3 The Department analyses over and underpayments of benefits into the following categories:

- **Fraud,** which arises when customers deliberately seek to mislead organisations which administer benefits, to claim money to which they are not entitled;
- **Customer error**, which arises when customers make inadvertent mistakes with no fraudulent intent; and

- **Official error**, which arises when a benefit is paid incorrectly due to inaction, delay or a mistaken assessment by the Department or organisation administering the benefit. Official error can result in both over and underpayments

3.4 Fraud and error estimates in the Department for Communities 2017-18 financial statements include over and underpayments relating to state pension. I have qualified my opinion on regularity due to the material level of fraud and error in benefit expenditure, other than State Pension (see 3.22). This qualification extends to the benefits administered by NIHE and LPS.

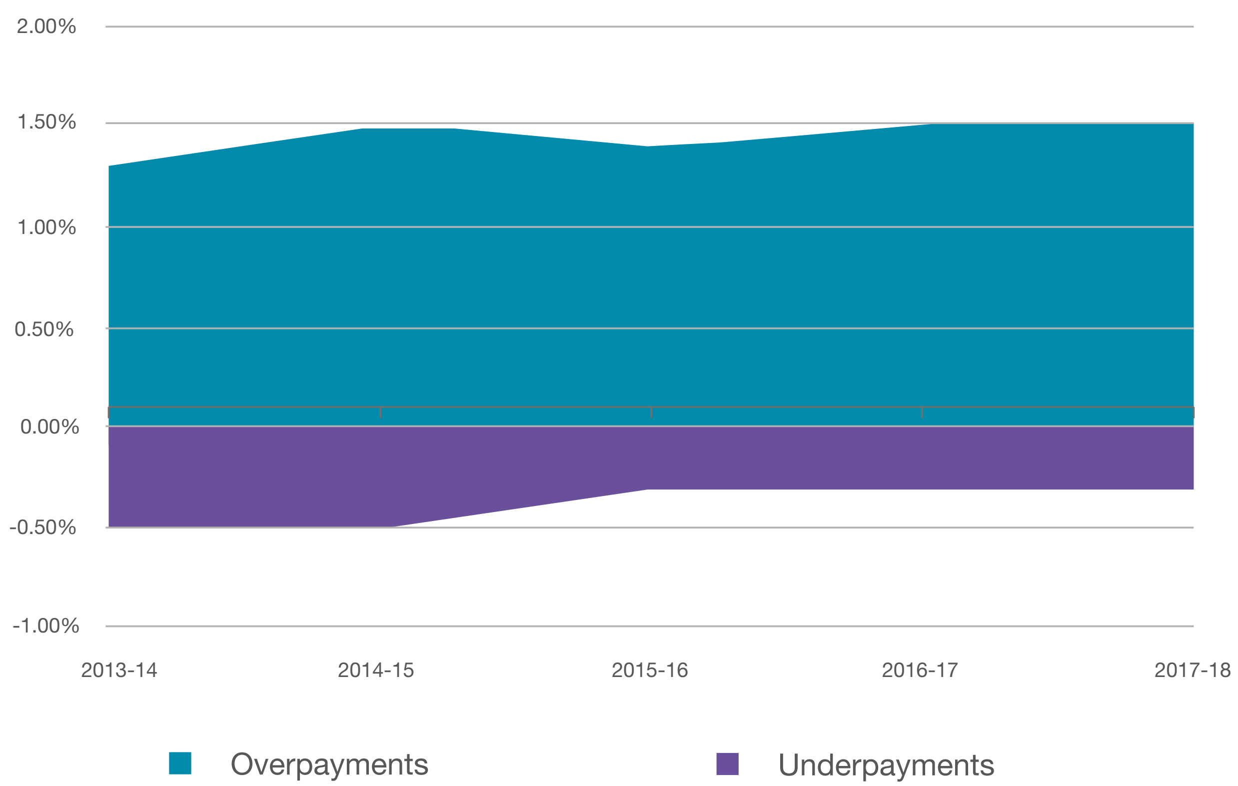
3.5 Since before the turn of the century, the accounts of predecessor departments administering benefit expenditure have received similar qualified audit opinions. Issuing an audit qualification is a serious matter, and the fact that similar qualifications have been in place for such a long period of time does not lesson that seriousness. I consider that the overall value of fraud and error in benefit expenditure remains unacceptably high, and the qualification of my audit opinion reflects that.

Estimated level of fraud and error in benefit expenditure

3.6 The Department reports, in note 23 to the accounts, its estimate that total overpayments due to fraud and error[3] in 2017-18 remained at 1.5 per cent of total benefit expenditure (2016-17: 1.5 per cent). The Department estimates that total underpayments due to official error[4] in 2017-18 remained at 0.3 per cent of total benefit expenditure (2016-17: 0.3 per cent). This equates to overpayments of £91.4 million (2016.17: £87.7 million) and underpayments of benefits due to official error of £16.9 million (2016-17: £19.7 million). **Figure 1** sets out the equivalent percentage errors figures since 2013-14. It is these gross values that lead to my qualified regularity opinion on benefits, other that state pension.

[3] Fraud and error figures quoted in this report are central estimates (or 'mid-points') within a 95% confidence interval. This range reflects the uncertainty within the Fraud and Error in the benefits system estimates.
[4] Underpayments due to customer error are not considered irregular and are excluded from these figures; only underpayments arising from official error are considered irregular.

Figure 1: Estimated incorrect benefit payments as a percentage of total benefit expenditure



3.7 Although the rates of fraud and error in benefit overpayments and underpayments have remained stable, as benefit expenditure increases the estimated value of error has also increased – see **Figure 2.**

Figure 2: Benefit expenditure since 2013-14

£million's	2013-14	2014-15	2015-16	2016-17	**2017-18**
Total expenditure	£5,512	£5,670	£5,790	£5,896	**£5,897**
Overpayments	£72.5	£82.4	£78.8	£87.7	**£91.4**
Underpayments	£24.8	£28.3	£18.5	£19.7	**£16.9**

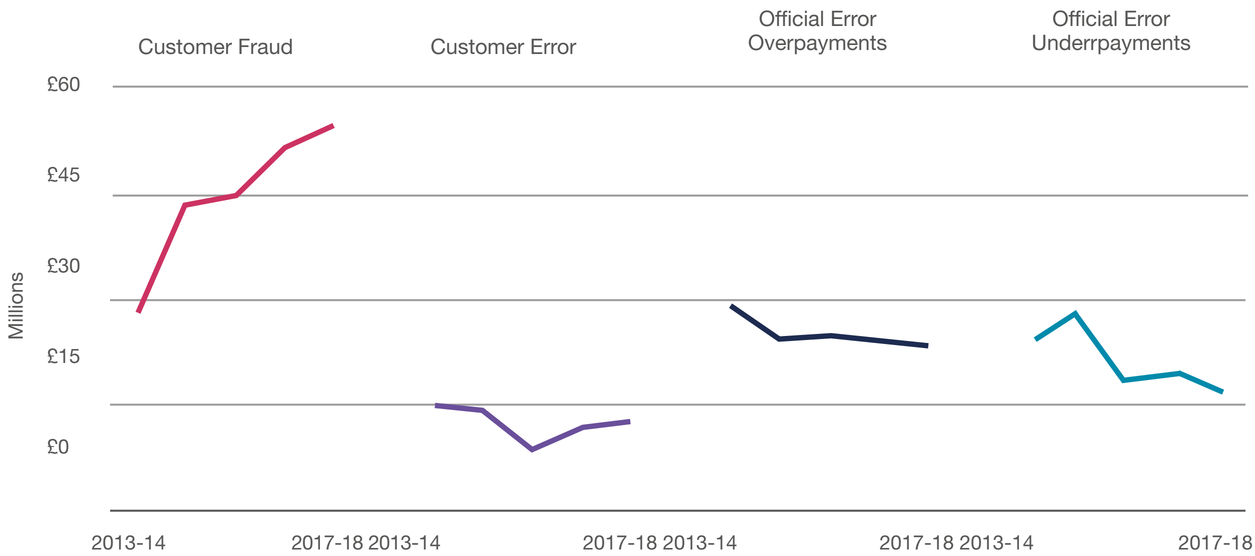
Source: *Department for Communities financial statements, 2013-14 to 2017-18.*

Benefit expenditure errors by type

3.8 An analysis of the category of over and underpayment is shown at **Figure 3** – benefit expenditure errors by type. This shows that overpayments due to customer fraud has consistently risen while overpayments due to customer error have fallen. Benefit underpayments and overpayments due to Customer Error and Official have shown no discernable trend.

Figure 3: Benefit expenditure errors by type

Customer fraud is the only type of error which has shown a consistent trend in the value of error detected



£million's	2013-14	2014-15	2015-16	2016-17	**2017-18**
Official Error	29.4	24.5	25.1	24.3	23.5
	(0.5%)	(0.4%)	(0.4%)	(0.4%)	(0.9%)
Customer Error	14.9	14.4	8.7	11.7	12.8
	(0.3%)	(0.3%)	(0.1%)	(0.2%)	(0.2%)
Customer Fraud	28.2	43.5	45.1	51.7	55.1
	(0.5%)	(0.8%)	(0.8%)	(0.9%)	(0.9%)
Total Overpayments	**72.5**	**82.4**	**78.9**	**87.7**	**91.4**
	(1.3%)	**(1.5%)**	**(1.4%)**	**(1.5%)**	**(1.5%)**
Underpayments (official error)	-24.8	-28.3	-18.5	-19.7	-16.9
	(0.5%)	(0.5%)	(0.3%)	(0.3%)	(0.3%)

3.9 The Department highlighted how the levels of over and underpayments have shown minimal fluctuation over the past five years as shown in **Figure 3**. The Department remains committed to minimising fraud & error and is taking forward various new initiatives through its benefit security transformation programme to continually refine and improve its counter fraud and error capability.

Fraud and error measurement

3.10 The Department's Standards Assurance Unit (SAU) regularly monitors and provides estimates of levels of fraud and error within the benefits processed by the Department, NIHE and LPS as outlined in Note 23 to the financial statements. In order to facilitate the timetable for the production of the financial statements, the Department's testing on payment accuracy is reported on a calendar year basis, not on a financial year basis. I am satisfied that this approach is reasonable and that the results produced by the SAU are a reliable estimate of the total fraud and error in the benefit system.

3.11 Means-tested benefits such as State Pension Credit, Income Support, Jobseeker's Allowance and Employment and Support Allowance tend to have the highest rates of customer fraud and error as they require the customer to provide complete and accurate information in order to establish entitlement to benefit. The Department has in the past told me that one of the main reasons for customer error is the complexity of, and lack of understanding, of the benefit system by the customer.

3.12 Customer fraud is estimated to have increased by £3.4 million to £55.1 million, although remained at 0.9 percent of total benefit expenditure. The Department told me that despite the relatively low level of Customer Fraud as a percentage of overall expenditure, the Department acknowledges this represents a significant amount of money. The Department did highlight in particular an increased focus and subsequent reductions in Housing Benefit fraud in 2017 – an area historically of greater risk. The Department has in place a wide ranging transformation programme to continually enhance its capabilities against fraud/error risks generally, including new means of targeting fraud/error and the roll-out of real time earnings information to benefit branches to detect undeclared earnings or other income at the point of claim.

3.13 Official errors are those that are attributed to the actions or inactions of the Department. These errors can take time to identify and correct and as a result, their cumulative impact on resource and efficiency can be considerable. The main reasons for official errors continue to be:

- incorrect recording of a customer's income;
- incorrect application of complex benefit rates; and
- errors in establishing the customer's status (for example their fitness for work, or living arrangements etc).

3.14 Estimated overpayments due to official error (excluding State Pension) have decreased by £0.4 million. The Department highlighted that overall staff accuracy remained high at 99.3% of benefit expenditure and in fact, loss through official error in 2017 (including State Pension) had improved slightly in monetary terms from the 2016 position. The Department is aware Employment and Support Allowance (ESA) remains the area of highest risk. Reducing Official Error within ESA has been a key focus throughout 2017; ESA will continue to target identified risk areas and known areas of inaccuracy. Focus will be maintained on driving out historical errors, in conjunction with working to prevent error entering the benefit system.

Analysis of Fraud and error by benefit type

3.15 The Department estimates total fraud and error by combining the results from its Financial Accuracy monitoring (to provide a measure of official error) and the results of Benefit Reviews which provide a measure of Customer Fraud and Error. **Figure 4** shows an Analysis of 2017-18 benefit expenditure by measurement approach.

Figure 4: Analysis of 2017-18 benefit expenditure by measurement approach

	£m		£m
Employment and Support Allowance	865	Disability Living Allowance (2008[5])	946
State Pension Credit	253	Income Support (2012[5])	141
Jobseeker's Allowance	106	Carer's Allowance (2010[5])	160
Housing Benefit (NIHE)	623	Attendance Allowance	199
Housing Benefit (LPS)	38	Social Fund	58
Continuously Reviewed (32%)	**1,885**	Other expenditure[6]	252
		Occasionally Reviewed (30%)	**1,756**
State Pension (2009)	**2,256**		
Partially Reviewed (38%)	**2,256**	**Total Benefits (100%)**	**5,897**

3.16 **Continuously reviewed** benefits are subject to an annual benefit review and official error exercise. **Occasionally reviewed** benefits are those that for which estimated error rates have been calculation using results of prior year benefit review and/or official error reviews. The State Pension is **partially reviewed** as it is subject to an annual review for official error only.

3.17 In qualifying my audit opinion on benefits, other than state pension, I refer to absolute figures which are derived from the Department's estimates. Therefore, caution should be exercised when examining the

[5] The year in which the last Benefit Review was carried out.
[6] Including Personal Independence Payments (PIP)

Department's estimates for trends, due to the measurement uncertainties explained in Note 23 to the financial statements. I acknowledge that 32 per cent of benefits are measured annually for fraud and error and that State Pension (38 per cent of total benefits) is measured annually for official error. Estimated levels of fraud and error in benefits reviewed occasionally, which represent 30 per cent of total benefit expenditure, are a number of years old. Disability Living Allowance accounted for approximately 54 per cent of this. DLA is in the process of being replaced by Personal Independence Payment. There are no new claims to DLA and caseloads will further decrease with the migration of existing DLA customers to PIP – see paragraph 2.6.

3.18 The Department is measuring financial accuracy in PIP in the 2017-18 year in shadow form, with a view to having full and statistically valid PIP accuracy figures reportable in 2018-19. In respect of benefit review, the Department is aiming to commence PIP customer fraud and error measurement in 2018; this is subject to ongoing discussion and planning with DWP on process and approach. The Department told me official error measurement for the new PIP benefit was developed and tested during 2017 and is now in place with staff accuracy figures due to be available for reporting at the end of 2018. Work is ongoing to develop customer fraud/error measurement in PIP, with benefit reviews planned for testing in 2018 and roll-out in 2019, with the first set of customer fraud/error results due at the end of 2019.

State Pension

3.19 In 2017-18 State Pension expenditure amounted to £2.3 billion; 38 per cent of the Department's total annual benefit spend – see **Figure 4**. The Department has found no evidence of fraud within State Pension payments and the estimated level of error within State Pension is not significant. For State Pension expenditure, the Department estimates that the level of overpayments decreased to £0.2 million from £0.7 million in 2016-17. State Pension underpayments due to official error decreased in monetary terms to £1.9 million from £2.8 million reducing to 0.03 per cent of total benefit expenditure (2016-17: 0.05 per cent).. These amounts are not significant in the context of the £2.3 billion spend on State Pension. **I have therefore not qualified my audit opinion on State Pension expenditure.**

Figure 5: Estimated overpayments and underpayments within state pension compared with all other benefits

	State Pension £ million	All other benefits £ million	Total £ million
Expenditure	**2,256**	**3,641**	**5,897**
Overpayments	0.2 (0%)	91.1 (1.5%)	91.4 (1.5%)
Underpayments	6.1 (0.1%)	21.5 (0.4%)	27.7 (0.5%)

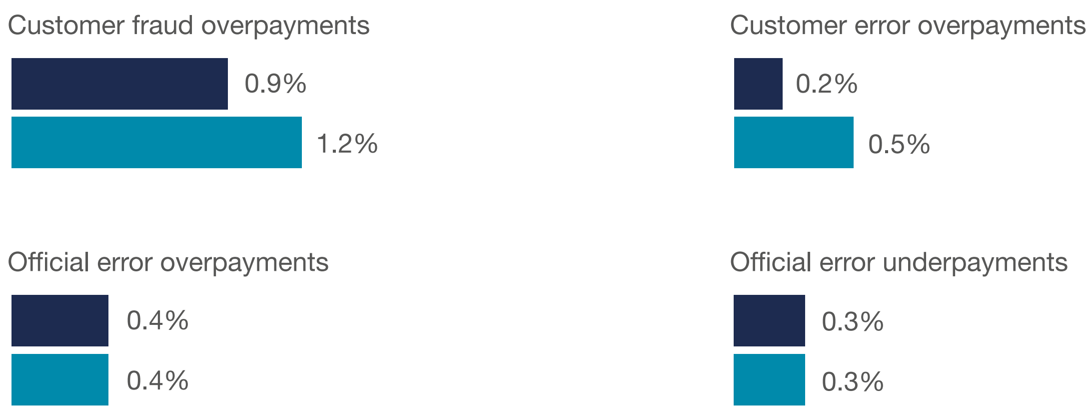
Source: *Department for Communities financial statements 2017-18*

3.20 The Department told me that the high degree of accuracy in the administration of State Pension continues with the level of Official Error (over and under payments combined) decreasing in 2017 to 0.1 per cent of benefit expenditure (2016: 0.2 per cent).

Comparisons between Northern Ireland and Great Britain

3.21 Administering a complex benefits system to a high degree of accuracy in a cost effective way is challenging. To show how the Department is performing in relation to levels of fraud and error, it is helpful to compare its performance with that of the Department for Work and Pensions (DWP) processing similar benefits in Great Britain. Key comparisons are set out in the **Figure 6.**

Figure 6: Northern Ireland and GB 2017-18 - Northern Ireland has lower detected rates of over payments resulting from customer fraud and error than Great Britain



Source: *DfC Resource Account and DWP: Fraud and Error Preliminary Estimates 2017-18*

3.22 Prior to the introduction of Welfare Reform in GB (2013) the analysis in Figure 6 would have compared two parallel benefit systems. With the later introduction of welfare reform in Northern Ireland, and later transition periods for the introduction of benefits, a like for like comparison with GB is more problematic.

The Department's progress in reducing fraud and error

3.23 I acknowledge the considerable effort and resources the Department has put into reducing the estimated levels of fraud and customer error, as outlined in the Corporate Governance section of its Annual Report. I would encourage the Department to continue to look for new methods to further reduce the levels of fraud and error.

3.24 Importantly, since August 2014, the Department has been receiving HMRC Real Time Information (RTI) data on earnings and non state pension income and matching this against current social security benefit claims.

3.25 The Department has highlighted the success of the RTI data source which has proven to be a reliable and effective source of intelligence to target and remove cases where earnings and other income have not been declared. The Department is expanding its use of RTI data by beginning to make it available to front-line benefit processing staff when assessing fresh claims. It is expected this will be a significant addition to the Department's fraud/error operation and will help in the drive to prevent fraud/error at the outset of a claim.

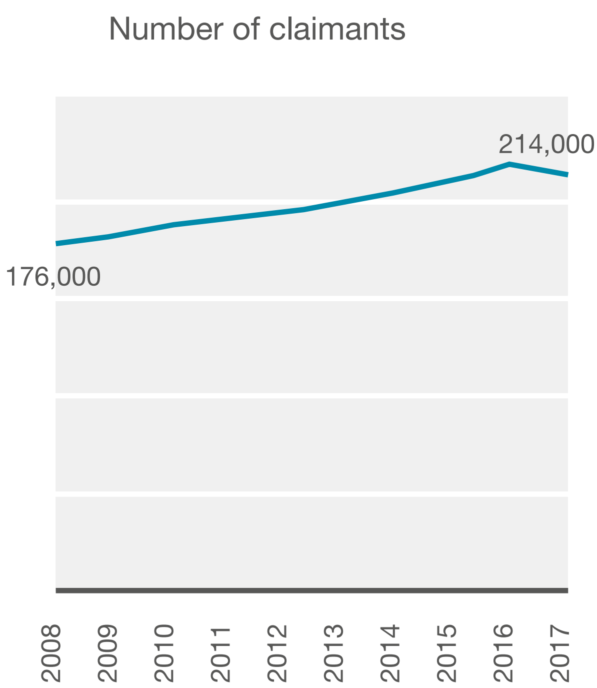
Disability Benefits - Changes in Circumstances

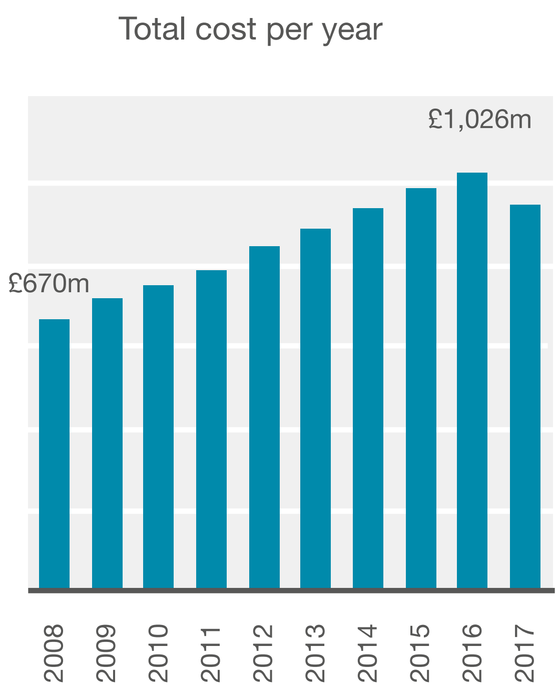
3.26 Note 23 of the Department's financial statements outlines cases where a gradual change in claimants' needs means the entitlement to DLA may have changed. It is considered unreasonable to expect the claimant to know at which point that benefit change occurs and therefore it is likely that the Department will only become aware of this when the individual's DLA entitlement is subject to a periodic reassessment. If this reassessment finds that their condition has gradually improved or deteriorated to an extent that it now impacts on their care and/or mobility needs, then there may be a change in the DLA benefit paid to the individual. This would not, however, result in any underpayments or overpayments in the period up to the reassessment because under benefit legislation it is for the Department to prove that entitlement to DLA is incorrect. Any adjustment to an individual's entitlement would therefore only take place from the date of the review.

3.27 In Northern Ireland DLA expenditure in 2017-18 was £946 million (2016-17: £1,026 million) which was 16 per cent of benefit expenditure (2016-17: 17 per cent). The reduction in expenditure follows the introduction of PIP (paragraph 2.6). In 2008-09 DLA was paid to an average of 176,000 claimants – this has risen to an average of 214,000 claimants in 2017-18 - **see Figure 7.**

Figure 7: Disability Living Allowance

Disability Living Allowance is not subject to regular review. The last such review was in 2008-09. Since then both the number of DLA claimants and the value of payments made to claimants has increased.





Source: *Number - NISRA - NI in Profile - Welfare : Cost = Department for Communities financial statements*

3.28 SAU last carried out a full benefit review of DLA in 2008 when DLA expenditure amounted to £670 million and at that time it estimated that around 18.2 per cent of DLA cases contained a change in customer circumstances that had not been reflected in the DLA benefit being paid. Using these same percentages, SAU estimate that in 2017-18, some customers may have received £53.6 million more than they would have been potentially entitled to if their circumstances were reassessed, and other customers are estimated to have received £27.4 million less than they would have been potentially entitled to. While customers receiving DLA are periodically reassessed, SAU have not since 2008 carried out a full benefit review on a sample of these reassessments to determine the most up-to-date estimated levels of fraud and error in DLA.

3.29 The Department acknowledged the absence of an up to date assessment of fraud/error in DLA, but highlighted the finite nature of resources available for measurement and the need to continue directing measurement at those benefits with highest risk of customer fraud/error, specifically Jobseekers Allowance, Employment Support Allowance, and State Pension Credit. The ongoing rollout of PIP is steadily replacing DLA expenditure and, as part of its process, involves much more regular reviews - thus reducing the risks associated with changing circumstances in DLA cases. It is planned to commence a review of customer fraud and error in the new PIP benefit in 2019, which will establish a fresh fraud/error baseline position for this new benefit.

3.30 I acknowledge that these DLA cases are legally and procedurally correct. However I am concerned by the amounts that could be involved in potential adjustments to DLA benefit as a result of changes in circumstances. The Department excludes these potential adjustments from their reported fraud and error over and underpayment figures. Identifying when customer circumstances change at the earliest opportunity is important for both the Department and the customer.

3.31 The Department told me that the potential adjustments are excluded from the reported fraud and error figures as these cases are not over and under payments; the benefit amount in payment to the customer is correct and there is no irregularity. To ensure transparency and understanding on the position with these DLA cases full disclosure on the subject and the amounts for the potential adjustments are included in the notes to the annual accounts. The Department's Fraud and Error Reduction Board provided ring fenced funding on an annual basis over many years, up to and including 2017-18, to target and correct these specific DLA cases. As noted above DLA is being replaced by PIP. The administration of PIP will involve regular reviews which reduce the risks associated with changing circumstances which are unavoidable in DLA benefit administration.

Employment and Support Allowance underpayments

3.32 In March 2018 a report was published by National Audit Office (NAO) into an investigation of Employment and Support Allowance (ESA) underpayments by DWP[7]. The report found that errors had occurred in payments made by DWP when migrating claimants from Incapacity Benefit to ESA. DWP estimates that these administrative errors have affected 70,000 people in England and Wales. DWP plans to pay arrears to the ESA claimants by April 2019.

3.33 In April 2018 DfC estimated that 8,000 claimants of ESA in Northern Ireland are likely to have been affected by similar errors within the Department, with underpayments of estimated to be around £3,000 per claimant.

3.34 DfC has been working closely with DWP to help identify how many ESA claimants in Northern Ireland are affected. Further analysis completed in May 2018 estimates that just over 3,500 ESA claimants in Northern Ireland may have been affected by similar errors. A specialist team has been established to review claims that migrated to ESA.

[7] www.nao.org.uk/press-release/investigation-into-errors-in-employment-and-support-allowance/

The team will complete a review of cases that migrated to ESA and, where appropriate, pay arrears to those affected by April 2019.

4 Conclusion

4.1 I have qualified my regularity opinion on the 2017-18 Departmental Resource Accounts due to material levels of fraud and error in benefit expenditure, excluding State Pension. State Pension continues to demonstrate a very low level of error, while overpayments in other measured benefits remained at 1.5 per cent of benefit expenditure. Underpayments remained consistent with 2016- 17 figures at 0.5 per cent. The estimated monetary amount of customer fraud for the Department is now £55.1 million, an increase of £3.4 million from the previous year.

4.2 Overpayments increase costs to the taxpayer and reduce public resources that could be made available for other purposes, and underpayments mean that households may not be getting the support that they are entitled to. The Department should continue in its efforts to prevent, detect and reduce the levels of over and underpayments within each benefit.

K J Donnelly

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COMPTROLLER AND AUDITOR GENERAL
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29 JUNE 2018

ANNEX A
Child Maintenance Service (CMS) Client Funds Account 2017–18

Management Commentary

1.1 Major Reforms

The Child Maintenance Service (CMS) is part of the Department for Communities; the CMS promotes the financial responsibility parents have for their children, providing information and advice through a Statutory Child Maintenance Scheme across NI.

The Department for Communities (the Department) CMS is determined to maximise the number of effective maintenance arrangements for children who live apart from one or both of their parents. To do this it has a two-pronged approach: more support for separated families to work together and reach family-based arrangements; and for those that cannot the new 2012 statutory scheme, which can collect money on behalf of parents. In addition, the Child Maintenance Choices service operates as the official ‘gateway’ to the new statutory scheme and helps separated parents to make informed choices about their maintenance arrangements.

The 2012 scheme offers one simpler assessment type based on gross income and benefits in payment. The system retrieves this data automatically from HM Revenue and Customs (HMRC) and the Department’s social security benefits system to carry out the assessment calculations.

Following the introduction of the 2012 scheme on a pathfinder approach in December 2012, the scheme opened to all new applicants in November 2013. The Department was then able to proceed to its second phase of reform on 30 June 2014. This included the introduction of collection and enforcement charges as part of a package of financial incentives to encourage parents to take greater financial responsibility for their children.

Once an application is made to the 2012 scheme, both parents can avoid collection charges entirely by using the Direct Pay service (where parents organise payments between themselves based upon a CMS calculation), this can be a step towards a more collaborative relationship. It is encouraging to see that, at March 2018, two out of three parents using the new 2012 statutory scheme are already using this service and thus avoiding charges completely.

Throughout the 2017-18 year the Child Maintenance Service (CMS) has continued to make significant progress in delivering major reforms to child maintenance. This includes ongoing implementation of the 2012 scheme, while at the same time administering the 1993 and 2003 schemes and preparing them for eventual closure.

It was originally anticipated that the closure of existing 1993 and 2003 scheme cases would affect approximately 32,000 cases. By March 2018, 15,961 cases had been selected for closure, of which 15,748 cases had reached the stage where their on-going liability under the 1993 or 2003 scheme has ceased. The live caseload on the 1993 and 2003 schemes at the end of March 2018 was 7,226 cases (31 March 2017: 11,647).

By being given the opportunity to look at their child maintenance arrangements again, many parents will decide they do not need state intervention. It is anticipated the 2012 scheme will therefore have a reduced caseload that can be run more effectively, ensuring more money for more children, while also reducing costs for the taxpayer.

As part of the closure exercise for the existing 1993 and 2003 cases CMS is considering the most appropriate way to tackle the longstanding historic arrears. The Department is following the approach adopted by the GB Department for Work and Pensions (DWP) Child Maintenance in relation to this issue. It is anticipated this approach will involve the introduction of new powers to write off a significant proportion of the outstanding arrears subject to new legislation and approval by the Department of Finance (DoF).

Performance during 2017-18 - 2012 Scheme

The caseload at 31 March 2018 was 13,746 (2017: 10,972). At that point 91.9 per cent of case groups were contributing towards their current liability (31 March 2017: 91.9 per cent). Parents using the 2012 scheme may elect to use either the Direct Pay or the Collect and Pay service. In total, the Department estimates that £14,956k (2016-17: £9,039k) was paid between parents:

- £12,431k through Direct Pay; and,
- £2,525k through Collect and Pay

1.1.1 Direct Pay

A case is classed as Direct Pay when the maintenance calculation has been derived by CMS (after assessment of the case) and the paying parent pays maintenance direct to the receiving parent. Parents are incentivised, through fees on the Collect and Pay service, to choose Direct Pay.

As at 31st March 2018, 69% (31 March 2017: 66%) of those parents due to pay their liability were using Direct Pay rather than the collection service. While payments made through Direct Pay do not flow through the Client Funds Bank Account they are a key part of the reforms. Payments due under Direct Pay are considered to be made in full and on time unless CMS is informed otherwise.

Where a payment is reported as missed, both clients are asked to provide evidence of the missed payment. Where it is deemed the paying parent is unlikely to pay, the case may be changed to collect and pay where enforcement tools are available to re-establish compliance and recover any outstanding arrears, including any arrears which accrued while the case was Direct Pay.

1.1.2 Receipts of child maintenance – Collect and Pay

During 2017-18, 52,931 (2016-17: 32,301) individual receipts were recorded. Total monies received (including collection charges) were £3,042k (2016-17: £1,927k) with 99% of receipts by volume received electronically.

1.1.3 Payments of child maintenance – Collect and Pay

During 2017-18, 51,098 (2016-17: 31,683) individual payments were made to parents with care with a total value of £2,647k (2016-17: £1,511k). One hundred per cent are made by funds transferred electronically to clients' bank accounts.

1.2 Performance during 2017-18 - 1993 and 2003 Schemes

The live caseload on the 1993 and 2003 schemes was at 7,226 by the end of March 2018 (11,647 at March 2017). The number of 1993 and 2003 scheme cases with a current liability of child maintenance (i.e. excluding those cases with arrears of child maintenance only) reduced to 28 (March 2017: 2,625), whilst the percentage of cases contributing to their current liability of child maintenance was 89.3% by the end of March 2018 (March 2017: 92.3 per cent).

The number of children benefiting from maintenance through the 1993 and 2003 schemes in the quarter to March 2018 was 58, a reduction of 3,293 since March 2017, which can be largely attributed to all new maintenance applications now being processed on the 2012 scheme and the commencement of the programme to close all cases on the 1993 and 2003 systems. The amount of maintenance collected or arranged over the year through the 1993 and 2003 schemes was £2.0 million (2016-17: £10.6 million).

1.3 Outstanding Arrears of Child Maintenance

In addition to reporting the receipts and payments of maintenance monies, the Department is required to report on the value of outstanding child maintenance arrears, which totalled £61.2 million at 31 March 2018 (31 March 2017: £61.7 million).

1.4 Assessment Accuracy

Assessment accuracy compares the aggregate weekly value of correct and incorrect assessments made by caseworkers to calculate the percentage of accurate cases.

For the year to 31 March 2018, it was not possible to determine the assessment accuracy for the Legacy Schemes (1993 and 2003 Schemes). This was the position for the previous year also. Due to the closure of Legacy cases throughout the last two years it is not possible to generate a statistically valid sample of cases to test. (Accuracy for the 2015-16 year was 96.2%).

With the 2012 scheme, the Department has simplified the way it administers child maintenance. For example, it has significantly reduced the number of procedures and manual interventions involved in its administration, and built direct digital interfaces with Her Majesty's Revenue and Customs and the Department's benefit systems to establish parental income and calculate maintenance.

For the year to 31 March 2018, the reported accuracy was 97.1% (2016-17: 97.1%). This figure does not take account of fully automated transactions; i.e. where a caseworker does not intervene. Work is on-going to accurately identify these automated transactions and to determine the impact on the overall assessment accuracy for the 2012 Scheme.

It is worth noting that it took nearly 20 years to achieve the accuracy levels on the legacy systems that the new 2012 Scheme is already delivering just 5 years since its introduction. It is also expected to improve as caseworkers become more familiar with the system but also due to the impact of increasing volumes of automated calculations, particularly Annual Reviews. This is where each case is updated after 12 months with the latest gross income which is usually sourced automatically from HMRC.

Statement of Accounting Officer's responsibilities

Under the Government Resource and Accounts Act (NI) 2001, the Department of Finance has directed the Department for

Communities to prepare a Statement of Client Funds Account for each financial year in the form and on the basis set out in the Accounts Direction. The Clients Fund accounts must comprise a Receipts and Payments Account, a Statement of Cash Balances and must properly present the receipts and payments for the financial year and the balances held at the year-end.

The notes to the Client Funds Account must include a summary of the maintenance assessment balances at the beginning and the end of the year and movements thereon during the year. The summary must also disclose the extent to which any outstanding maintenance arrears are likely to be collected. In addition the amount of the arrears must be categorised as to its collectability.

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

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

The Department of Finance has appointed the Head of the Department for Communities as Accounting Officer of the Department. The Accounting Officer for the Department for Communities is also the Accounting Officer for the Child Maintenance Service Client Funds. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Department for Communities' assets, are set out in Managing Public Money Northern Ireland published by the Department of Finance.

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

He also confirms that the accounts as a whole are fair, balanced and understandable and takes personal responsibility for the accounts and the judgements required for determining that it is fair, balanced and understandable.

LEO O' REILLY
ACCOUNTING OFFICER
25 JUNE 2018

Governance Statement

Introduction

The Department for Communities has responsibility for the management of client funds relating to the 1993, 2003 and 2012 statutory child maintenance schemes, which include the flow of receipts from non-resident parents, payments to persons with care of the children and the Department, and the accumulated maintenance arrears. The Department is required to publish a separate Client Funds Account, in accordance with the Department of Finance Accounts Direction under Section 11(2) of the Government and Resources and Accounts Act (Northern Ireland) 2001. The Department operates the statutory child maintenance schemes through the Child Maintenance Service.

The governance arrangements set out in the Departmental Resource Account for the year ended 31 March 2018 relate to the Child Maintenance Service as part of the Department.

This statement provides comment on issues which are specific to the Child Maintenance Service operating within the Department with specific reference to the significant control weaknesses relevant to the Child Maintenance Service.

2012 Scheme

The new 2012 Statutory Scheme opened on a pathfinder basis in December 2012 and then to all new applicants on 25 November 2013. On 30 June 2014 the second phase of the reform programme introduced collection and enforcement charges for clients using the new statutory scheme.

Parents can avoid collection fees completely if they choose to set up a family-based arrangement or pay by Direct Pay. The charging structure per the Scheme adds 20% to each of the paying parents' usual child maintenance amounts and deducts 4% from each of the receiving parents' usual child maintenance amount.

The introduction of charging for CMS services aims to encourage clients to make an active choice about their child maintenance arrangements rather than automatically default to the statutory service. The intention is that only those clients, who are unable to reach a family-based arrangement or where the paying parent has failed to pay using Direct Pay, utilise the Collect and Pay statutory service.

Case Closure Programme

The Case Closure Programme commenced in 2014 and includes processes to contact 1993 and 2003 system clients-parents with care to consider if they would like their arrears managed on the 2012 system or if they would prefer the arrears to be written off. (There are several reasons why a parent with care may ask for arrears to be written off, for example they may have reconciled with their partner).

The target date for ending liability on all legacy cases is December 2018. It is intended the 1993 and 2003 systems will be decommissioned after this date. There will be just one statutory scheme in operation, the 2012 Scheme.

For clients who decide to have their arrears managed on the 2012 system, the current process is to transfer arrears from the 1993 and 2003 systems to the 2012 system.

Financial controls exist to ensure the values migrating between systems are accurately received and correctly attributed as either due to the parent with care or the Department (for cases where benefits were in payment prior to 2008).

During the reporting year to 31 March 2018 £4.38 million of arrears had transferred to the 2012 system (2016-17: £7.64m) with only £0.08 million in transit between schemes at the year-end due to timing on the case build process on the 2012 system (2016-17: £0.02m).

1993 and 2003 Scheme

Many of the control weaknesses highlighted in previous years accounts and documented below, arise as a result of the limitations in the systems underpinning the 1993 and 2003 statutory schemes, which have led to repeated qualified audit opinions by the Comptroller and Auditor General. Whilst this statement records the action which the Department has taken to manage these control weaknesses, a key part of the strategic solution remains the full implementation of the 2012 scheme. The Department is considering the most appropriate way to tackle the longstanding historic legacy arrears balance.

The Department is following the approach adopted by the GB Department for Work and Pensions (DWP) Child Maintenance in relation to this issue. It is anticipated this approach will involve the introduction of new powers to write off a significant proportion of the outstanding arrears subject to new legislation and approval by the Department of Finance (DoF).

Internal Audit Opinion

During 2017-18, Internal Audit carried out a review of CMS 2012 Scheme Case Maintenance, CMS Cash Value Accuracy Validation and Customer Complaint Handling. All the internal audit assignments resulted in a satisfactory opinion.

Internal Audit also completed a review of the Client Funds Account within the Work and Inclusion Accounts & Treasury Management Branch in DfC. This report is currently at draft stage and the audit opinion is satisfactory.

Significant Governance and Internal Control Challenges

Accuracy of Maintenance Assessments

Assessment accuracy was an issue for the 1993 and 2003 schemes. The inaccuracy of maintenance assessments and consequent uncertainty around the reported arrears have contributed to the ongoing qualification of the CMS Client Funds accounts. The accumulated inaccuracies arising mainly from earlier years continue to affect current arrears balances.

It is not possible to identify, review and correct all errors on previous cases from earlier years. Additionally, as the Department is wholly reliant on the Department for Work and Pensions for the provision of IT systems, the Department is not in a position to correct the underlying deficiencies which have contributed to these errors. Cash Value Accuracy remains an area of focus particularly during the challenging conditions brought about by the movement of work relating to the closure of cases on the 1993 and 2003 schemes, while maintaining the growing 2012 Scheme caseload.

In respect of the 2012 Scheme, internally reported assessment accuracy for 2017-18 is 97.1% (2016-17: 97.1 %). This does not however fully reflect the automation of the CMS 2012 system. In addition, caseworkers are still learning and gaining experience with a new system and its processes; the accuracy of assessments made by caseworkers on the 2012 system is expected to improve over time. There are also a number of initiatives in progress to deliver targeted improvements in areas where weaknesses have been recognised.

Accounting Information

Due to the limitations of the CMS Child Support Computer Systems (CSCS and CS2) supporting the 1993 and 2003 schemes, the evidence available to support the accuracy and completeness of outstanding maintenance arrears balances continues to be limited or unavailable. There continues to be significant uncertainty over the accuracy and completeness of the arrears balances.

Due to the absence of a satisfactory audit trail to support the outstanding maintenance arrears balances recorded in note 6.1 of the Account , the Comptroller and Auditor General is unable to conclude on the accuracy and completeness of maintenance arrears balances and has disclaimed his audit opinion in respect of this note alone. This is on the basis that he considers the uncertainties in relation to maintenance arrears to be both material and pervasive to this note.

Cases Managed off the Main Systems

Prior to the implementation of 2012 system, the Department operated two main child maintenance computer systems. These were 1993 (previously known as CSCS) and 2003 (previously known as CS2) systems. Data issues, software defects or both mean that some cases either cannot be managed at all on the 2003 system, or can only partially be managed on that system.

At 31 March 2018, no cases were managed wholly off the 2003 system compared with 940 cases at 31 March 2017. At March 2017 these cases represented £0.41m of the overall arrears balance reported in Note 6.2 of this account.

Statement of Balances

Due to insufficient information being available in underlying IT systems, the Client Funds Receipts and Payments Account and Statement of Balances have historically been prepared using bank statements. The Statement of Balances discloses the balance on the bank account at the year end. The year-end bank balance is then broken down between funds received into the bank which are awaiting clearance and cleared funds which are awaiting distribution.

The analysis of cleared funds is heavily reliant on system generated reports. While the Department can provide a full and detailed breakdown of cash transactions for the current year and historic banking transactions will have been subject to full management and audit scrutiny, the Department is not able to fully reconcile the outstanding bank balance in respect of the 1993 and 2003 schemes to reports generated from the client systems. This un- reconciled balance will be subject to fluctuations. The Department will continue to take the appropriate action to attempt to resolve this issue as far as possible.

Reimbursements to Clients

Where cases are subject to significant delay or maladministration, the Department can incur costs in the form of special payments for compensation for delay, maladministration or financial loss, where appropriate. Such costs are reflected within the Accountability Report of the DfC Resource Account. This totalled £0.046m in 2017-18 (2016-17: £0.081m).

Information Security

The control challenge remains to protect the vast amount of sensitive personal data necessary to assess and pay child maintenance while, at the same time, making efficient use of that data.

The Department is committed to ensuring that all the sensitive information entrusted to it is managed lawfully and appropriately. The Departmental Information Assurance Committee (DIAC) is a committee of the Departmental Management Board (DMB). Its role is to ensure that the Department has appropriate policies, management and governance systems to effectively protect the considerable amount of information held by DfC.

Information assurance encompasses physical, personnel and information security; information management; IT security; information systems security and accreditation; information risk management and the more effective use of information.

In relation to data security departmental guidance is in place to ensure that all information used for operational and financial reporting purposes is handled appropriately. Where information is used by third parties or other parts of government, the Department takes action to ensure that appropriate steps are taken to hold all data securely.

General Data Protection Regulations (GDPR)

GDPR will be introduced on 25 May 2018 and represents the biggest change in data protection law for 20 years. The Department agreed a GDPR strategy and implementation plan in November 2017. The Implementation Plan is being closely managed to ensure readiness for the change.

Management Information

Progress has been made in the development and enhancement of management information available for the 2012 Scheme. Whilst this progresses, contingency reports have been developed to allow performance to be monitored.

The 1993 and 2003 computer systems lack the functionality to 'age' arrears of balances due to the parent with care from the non-resident parent. This impacts the Department's ability to assess the collectability of debt. The cost of remedying this issue is considered to be prohibitive.

Conclusion

The Department will continue to work with the Department for Work and Pensions in Great Britain on the continued development of the new Child Maintenance system and the actions to address the longstanding arrears balance. It will continue to take all appropriate action to work around the longstanding system issues and mitigate the associated risks.

I am satisfied that the Child Maintenance Service has effective governance arrangement in place that I can rely on as Accounting Officer to provide assurance that the public funds and other resources for which I am accountable are deployed effectively. Where significant issues have arisen I am satisfied that the appropriate action is being taken to address the issues concerned.

LEO O' REILLY
ACCOUNTING OFFICER
25 JUNE 2018

Child Maintenance Service Client Funds 2017-18 The Certificate of the Comptroller and Auditor General to the Northern Ireland Assembly

Opinion on financial statements

I certify that I have audited the financial statements of the Child Maintenance Service Client funds for the year ended 31 March 2018 under the Government Resources and Accounts Act (Northern Ireland) 2001. The financial statements comprise: the Receipts and Payments Account, Statement of Balances; and the related notes. These financial statements have been prepared under the accounting policies set out within them.

In my opinion the financial statements:

- properly presents the receipts and payments of Child Maintenance Services Client Funds for the year then ended and the balances as held at 31 March 2018; and
- have been properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance directions issued thereunder, except for the Maintenance Arrears at note 6.1, as further detailed below in "Basis of opinions".

Qualified opinion on regularity

In my opinion, except for the receipts and payments arising from the maintenance assessments calculated in error, in all material aspects the receipts and payments and the financial transactions recorded in the account conform to the authorities which govern them.

Disclaimer of opinion on maintenance arrears balances

Because of the significance of the issues described in the Basis of Opinions below, I have not been able to obtain sufficient appropriate evidence to conclude on the accuracy and completeness of the maintenance arrears balances at Note 6.1 so therefore I have not expressed an opinion on the maintenance arrears balances.

Basis of opinions

My opinion on regularity is qualified as the Department for Communities (the Department) is required to calculate maintenance assessments in accordance with the relevant legislation. My examination of maintenance assessments identified cases that have been calculated incorrectly. Receipts have been obtained, and payments have been made, based on these incorrect assessments.

My opinion on maintenance arrears balances of £62 million is disclaimed as audit examination of maintenance arrears balances was limited because of insufficient evidence to substantiate the level of maintenance arrears included within Note 6.1 to the account. I was unable to determine whether the Department maintained adequate accounting records to support the level of outstanding maintenance arrears and I was unable to determine if Note 6.1 is in agreement with the accounting records. I have not therefore received all the information and explanations I require for my audit.

I was also unable to confirm the accuracy and completeness of the maintenance assessments which form the basis of the maintenance arrears balances. Whilst I am not able to provide a precise estimate of the level of error, I consider the level of gross error to be material.

As the Client Funds account is not prepared on an accruals basis the maintenance arrears figures in Note 6.1 do not impact on other disclosures within the account. Consequently the disclaimer of my audit opinion extends to Note 6.1 only.

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of this certificate. My staff and I are independent of Child Maintenance Service Client Funds in accordance with the ethical requirements of the Financial Reporting Council's Revised Ethical Standard 2016, and have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinions.

Other Information

The Accounting Officer is responsible for the other information included in the annual report. The other information comprises the information included in the annual report other than the financial statements and my audit certificate and report. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the information given in the Management Commentary and Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they properly present the receipts and payments during the year.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001.

I am required to obtain evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website **www.frc.org.uk/auditorsresponsibilities**. This description forms part of my certificate. In addition, I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments recorded in the financial statements have been applied to the purposes intended by Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Matters on which I report by exception

Due to the matters on which my opinion has been disclaimed, I must report to you that adequate accounting records have not been kept, and information and explanations required for the audit have not been provided for the maintenance arrears balances.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- the Governance Statement does not reflect compliance with the Department of Finance's guidance.

My detailed observations are included in my report attached to the financial statements.

K J Donnelly

KJ DONNELLY
COMPTROLLER AND AUDITOR GENERAL
NORTHERN IRELAND AUDIT OFFICE
106 UNIVERSITY STREET
BELFAST
BT7 1EU
29 JUNE 2018

Child Maintenance Service (CMS) Client Funds Account

Receipts and Payments Account for the year ended 31 March 2018

	Notes	2017-18 £'000	2016-17 £'000
Receipts	2	5,540	9,957
Bank Interest	3	–	–
Total Receipts		**5,540**	9,957
Less Payments to :			
Persons With Care	2	4,442	8,840
the Department (including fees)	2	712	713
Department for Work and Pensions (DWP)	2	25	420
Non Resident Parents	2	276	141
Total payments		**5,455**	10,114
Net (Payments)/Receipts		**85**	(157)
Balance as at 1 April		206	363
Balance as at 31 March	4	**291**	206

Statement of Balances as at 31 March 2018

	Notes	2017-18 £'000	2016-17 £'000
Funds awaiting clearance	4	**166**	123
Cleared funds awaiting distribution	4	**125**	83
Balance on bank account		**291**	206

The notes on pages 192 to 198 form part of these accounts.

Leo O'Reilly

LEO O' REILLY
ACCOUNTING OFFICER
25 JUNE 2018

Notes to the Account

1. Accounting Policies

1.1 This Receipts and Payments Account has been prepared on a cash basis and in the form directed by the Department of Finance.

1.2. The Client Funds Account properly presents the receipts and payments and cash balances of the CMS Client Funds. The Client Funds Account is required to be published along with the Department's Resource Accounts and includes a Statement of Accounting Officer's Responsibilities and a Governance Statement.

1.3. The notes to the CMS Client Funds Account include a summary of the maintenance assessment balances at the beginning and end of the year and the movements thereon during the year both for the current year and the previous year. CMS is required to disclose the extent to which any outstanding maintenance arrears are likely to be collected. In addition the amount of arrears should be categorised as to its collectability.

1.4. The outstanding maintenance arrears note has been prepared on an accruals basis.

2. Receipts and Payments

2.1 Receipts from clients relate to child maintenance and fees collected from non-resident parents by CMS for payment, to parents with care (maintenance), to the Department or to the Department for Work and Pensions (DWP). Receipts also include drawdowns from the Department; for the 2017-18 financial year these amount to £110k. The drawdown amounts are used to facilitate payments made to Parents with Care.

2.2 The receipts quoted in the Receipts and Payments Account differ from the receipts total shown in movements on outstanding maintenance arrears (see Notes 6.1 and 6.2). This is due principally to timing differences and the inclusion of non-maintenance receipts in the amounts shown in the Receipts and Payments Account.

2.3 Refunds are made to Non-Resident Parents under a number of different circumstances. In the year £142k relates mainly to clerical cases under the 1993 and 2003 schemes going through the case closure process and £134k relates to cases in the 2012 Scheme. Money is also received from the Department to refund Non-Resident Parents in cases where an overpayment has been made, and the amount is irrecoverable as the case has been closed under the 1993 and 2003 schemes. This totaled £16k (2016-17: £18k) and is included within the Accountability Report of the Department's Resource Account.

2.4 The payments to the Department of £712k, include payments of £214k (2016-17 £534k) that have been made in respect of funds received on 1993 and 2003 scheme cases where clients were in receipt of benefit at the time of the assessment, pre-October 2008. When funds are received which relate to periods when clients were in receipt of benefits these payments continue to be made to the Department.

2.5 Payments to the Department include £459k of enforcement and collection charges (2016-17: £330k) which have been applied to parents using the new statutory 2012 Scheme following the implementation of the second phase of the reform programme in June 2014.

3. Interest Received and Paid

3.1 A cross government procurement exercise led to a change in the DfC NI CMS sponsor bank in the 2016-17 year; the new sponsor bank is the Royal Bank of Scotland. The new bank accounts are no longer interest bearing and as a consequence no interest was received in the 2017-18 year (2016-17: £nil).

4. Statement of Balances

4.1 The balances relate to sums collected from Non-Resident Parents and interest received which had not been paid over to Persons With Care, the Department, the Department for Work and Pensions or Non- Resident Parents at year end.

4.2 The balances relating to funds awaiting clearance are amounts that CMS has received into its bank account but have not yet cleared through the bank's clearance processes.

4.3 The balances relating to cleared funds awaiting distribution are amounts that CMS has received into the Client Funds bank account but have not yet been paid out to Persons With Care, the Department, the Department for Work and Pensions or Non-Resident Parents.

5. Outstanding Maintenance Arrears at 31 March 2018

5.1 Under the Accounts Direction, issued by the Department of Finance, the Department is required to disclose the balances outstanding from non-resident parents at the year end, the movements in the balances outstanding between the beginning and end of the year and to categorise those balances by reference to their collectability.

5.2 1993 and 2003 schemes

There are four types of maintenance assessments:

- Full maintenance assessments – where the 1993 rules apply and both the parent with care and the non-resident parent provide all the information requested.
- Interim maintenance assessments – where the 1993 rules apply and it has not been possible to obtain sufficient information to make a full maintenance assessment.
- Maintenance calculation – where the 2003 rules apply and both the parent with care and the non-resident parent provide all the information requested.
- Default maintenance decision – where the 2003 rules apply and it has not been possible to obtain sufficient information to make a maintenance calculation.

The majority of interim maintenance assessments were set at punitive rates to encourage contact from, and compliance by, the non-resident parent, and hence take no account of their income or ability to pay.

Where the statutory maintenance service is in contact with a non- resident parent on whom an interim maintenance assessment has been imposed, a proportion of the amount outstanding may prove collectable. This is particularly likely where the non-resident parent is co-operating with us and we are able to replace the interim maintenance assessment with a full maintenance assessment.

Where an interim maintenance assessment has been imposed on or after 18 April 1995, the subsequent full maintenance assessment will be backdated and will replace the interim maintenance assessment. Any amounts collected under the interim maintenance assessment will be offset against the full maintenance assessment due.

A default maintenance decision is a calculation based on a weekly average wage and is not set at punitive rates.

5.3 2012 scheme

The 2012 scheme offers one simple assessment type based on gross income and benefits in payment. The system pulls data automatically from HM Revenue and Customs and the Department's benefits systems to carry out the assessment calculations.

Collectability of Outstanding Maintenance Arrears

5.4 In line with the Accounts Direction, CMS undertook an "Outstanding Maintenance Arrears Analysis Exercise" to estimate the collectability of outstanding maintenance arrears during 2014-15. The results have been used as the basis to estimate the collectability of outstanding maintenance arrears as at 31 March 2018. This Exercise established three categories for the total outstanding maintenance arrears i.e. likely to be collectable, possibly uncollectable and probably uncollectable.

Likely to be Collectable

This relates to amounts outstanding which the Exercise suggested are likely to be collected. This takes into account factors such as regular contact with the Non-Resident Parent, where regular payments are being made or an arrears agreement has been set up.

Possibly uncollectable

This relates to amounts outstanding where the Exercise suggested some uncertainty over whether arrears will be collected. The amounts are considered possibly uncollectable where, for example, payments have been infrequent or it has not been possible to establish an arrears agreement or impose a Deduction from Earnings Order. An estimate has been calculated, assessing the difficulty of collecting each element of the outstanding maintenance arrears. Where it is likely to be difficult to collect, due to, for example, unsuccessful attempts to trace a client but the NRPs address or bank account details are known, a proportion of these amounts has been estimated as possibly uncollectable.

Probably uncollectable

This relates to amounts outstanding where the Exercise suggested there is significant uncertainty over whether arrears will be collected due to, for example, the lack of contact with, or the personal circumstances of, the Non-Resident Parent. In many of these cases the Department has suspended recovery action until such time as the individuals' circumstances change. The full amount of outstanding maintenance arrears in this category has been estimated as probably uncollectable.

5.5 The outstanding arrears for 2012 Scheme cases are considered likely to be collected based on these arrears primarily accruing within the last 4 years. This position will be continue to be reviewed.

5.6 The amounts outstanding on individual cases remain and continue to be due in full. CMS will continue to consider any new facts brought to its attention regarding collectability and have not waived its discretion to take action in the future to collect any amount outstanding which becomes collectable.

5.7 On 10 December 2012, powers within the Child Maintenance Act (Northern Ireland) 2008 were introduced, which allowed for the writing off of some arrears in certain circumstances. These are circumstances when the parent with care specifically requests us not to collect the arrears, or when collection is impossible because, for example the non- resident parent has died and the arrears cannot be recovered from the estate. There are several reasons why a parent with care would ask for the arrears to be written off, for example, they may have reconciled with their former partner.

5.8 Provision has also been made for the parent with care to accept part payment in full and final satisfaction of the outstanding arrears. These arrangements will be made on a case-by-case basis and, where CMS is considering use of these powers, the parent with care will be required to provide their consent to the part-payment arrangement and the amount to be paid.

5.9 In total £2.2 million has been written off under these powers across the 1993, 2003 and 2012 schemes in the financial year (2016-17: £3.1 million).

Note 6.1 Outstanding Maintenance Arrears as at 31 March 2018

	1993 Scheme (CSCS) £'000	2003 Scheme (CS2) £'000	Legacy Arrears hosted on 2012 Scheme £'000	2012 Scheme £'000	Total £'000
Opening balances as at 1 April 2017	**13,200**	**35,105**	**11,346**	**2,007**	**61,658**
Transfer between schemes *(Note a)*	(257)	(4,121)	4,378	–	**–**
Write Off *(Note 6.3iii)*	(391)	(1,118)	(619)	(118)	**(2,246)**
Maintenance Charged in Year	102	6,718	–	4,250	**11,070**
Maintenance Adjustments *(Note b)*	(1,154)	(2,916)	(399)	(220)	**(4,689)**
Maintenance Received in Year	(347)	(1,377)	(341)	(2,525)	**(4,590)**
Closing balances as at 31 March 2018	**11,153**	**32,291**	**14,365**	**3,394**	**61,203**
Collectability analysis					
Likely to be collected	1,377	7,675	956	3,394	**13,402**
Possibly uncollectable	832	4,336	557	–	**5,725**
Probably uncollectable	8,944	20,280	12,852	–	**42,076**
	11,153	**32,291**	**14,365**	**3,394**	**61,203**

Note a

Transfer between schemes relates to movement of arrears balances from 1993 and 2003 schemes to the 2012 scheme.

Note b

Maintenance adjustments include outstanding maintenance arrears transferred to and from the Child Maintenance Group in Great Britain, and adjustments arising from cancelled or terminated assessments; or where the liability has been reduced, for example, as a result of a direct payment between parties offset against the maintenance due.

Note 6.2 Outstanding Maintenance Arrears as at 31 March 2017

	1993 Scheme (CSCS) £'000	2003 Scheme (CS2) £'000	Legacy Arrears hosted on 2012 Scheme £'000	2012 Scheme £'000	Total £'000
Opening balances as at 1 April 2016	**18,867**	**39,371**	**4,396**	**1,014**	**63,648**
Transfer between schemes *(Note a)*	(621)	(7,014)	7,635	–	–
Write Off *(Note 6.3ii)*	(1,225)	(1,470)	(268)	(98)	(3,061)
Maintenance Charged in Year	557	15,846	–	2,777	19,180
Maintenance Adjustments *(Note b)*	(3,562)	(5,029)	(257)	(238)	(9,086)
Maintenance Received in Year	(816)	(6,599)	(160)	(1,448)	(9,023)
Closing balances as at 31 March 2017	**13,200**	**35,105**	**11,346**	**2,007**	**61,658**
Collectability analysis					
Likely to be collected	1,648	8,157	746	2,007	12,558
Possibly uncollectable	994	4,619	435	–	6,048
Probably uncollectable	10,558	22,329	10,165	–	43,052
	13,200	**35,105**	**11,346**	**2,007**	**61,658**

Note a

Transfer between schemes relates to movement of arrears balances from 1993 and 2003 schemes to the 2012 scheme.

Note b

Maintenance adjustments include outstanding maintenance arrears transferred to and from the Child Maintenance Group in Great Britain, and adjustments arising from cancelled or terminated assessments; or where the liability has been reduced, for example, as a result of a direct payment between parties offset against the maintenance due.

6.3 Movements in outstanding maintenance arrears

The following notes explain movements from the opening outstanding maintenance arrears balance to the closing balance:

i) Maintenance charged in year relates to assessments made on non-resident parents during the year. The amount charged in 2017-18 was £11.1 million (2016-17: £19.2 million); this movement is as a result of use of ‘maintenance direct’ and ‘direct pay’ services, which removes the compulsion to use the Department’s collection service.

ii) Maintenance adjustments comprises outstanding maintenance arrears transferred to and from the Child Maintenance Group in Great Britain, and adjustments arising from cancelled or terminated assessments; or where the liability has been reduced, for example, as a result of a direct payment between parties offset against the maintenance due. The maintenance adjustments in 2017-18 totalled £4.7 million (2016-17: £9.1 million); this decrease is attributable to the decline in the number of adjustments arising from case closure activities undertaken.

iii) CMS has continued to make use of write off powers introduced as part of Write off and Part Payment legislation, with £2.2 million being written off on 1993, 2003 and 2012 schemes in 2017-18 (2016-17: £3.1 million); this decrease is primarily as a result of a decrease in the volume of requests from PWC’s for their arrears not to be collected.

iv) Maintenance received during the year comprises amounts received from non-resident parents, and the Child Maintenance Group in Great Britain during the year. When a receipt is subsequently allocated to a case by the child support computer systems, the receipt becomes a constituent of the arrears balance for that case. The timing difference between receipt, assignment and allocation contributes to the difference between the value of the receipts in the Receipts and Payments Account and the receipt amounts in Note 6. The total value of receipts allocated to cases in 2017-18 was £4.6 million (2016-17: £9.0 million). Additionally the Receipts and Payments Account includes payments of non-child maintenance not reported in Note 6, which purely covers child maintenance.

Report of the Comptroller and Auditor General

Introduction

1. The Child Maintenance Service was a Division within the Department for Communities (the Department) during the financial period covered by this report. The main purpose of the Child Maintenance Service (CMS) is to promote the financial responsibility parents have for their children and provide information and advice through a Statutory Child Maintanence Scheme across Northern Ireland.

2. The Department is required under an Accounts Direction from the Department of Finance to prepare a CMS Client Funds Account. This is a receipts and payments account showing mainly receipts of child maintenance from non- resident parents and payments made to persons with care responsibilities for those children.

3. The Department is also required to provide a summary of the amounts due in respect of unpaid maintenance assessments together with its assessment of the extent to which any outstanding maintenance arrears are likely to be collected at the year end. The administration costs of running CMS are not included within this account but instead are accounted for through the Department's Resource Account.

4. I am required to examine and certify the CMS Client Funds Account and report the results to the Northern Ireland Assembly. In doing this I give an opinion on three specific elements of the account:

   - the regularity of the receipts and payments included in the account i.e. if they comply with the regulations governing them;
   - the truth and fairness of the figures included in relation to the outstanding maintenance arrears in note 6.1 which I am required to report on specifically; and
   - that the receipts and payments part of the account (i.e. the remainder of the account apart from note 6.1) is properly presented.

5. This report provides a summary of the issues giving rise to the qualifications and also provides an update on the issues I reported on last year.

Qualified Audit Opinions

6. In every year since the inception of child support in April 1993, my audit opinion has been qualified and my work this year has again concluded that a qualified audit opinion is still required in relation to the following areas:

- on the regularity of the receipts and payments reported in the account. This is because the receipts and payments are based on maintenance assessments calculated over several years and I consider the estimated level of error in these maintenance assessments to be material (see paragraphs 7 to 19); and
- on the accuracy and completeness of the outstanding maintenance arrears at 31 March 2018 as shown in note 6.1. As a result of an inadequate audit trail, my examination of the arrears balance was severely limited and therefore I was unable to obtain enough evidence to satisfy myself as to the accuracy and completeness of the outstanding maintenance arrears of £61.2 million (see paragraphs 20 to 26).

My opinion in relation to the receipts and payments part of the account being properly presented is not qualified. Further details of the basis for my opinions are provided below.

Qualified Audit Opinion – Regularity of maintenance assessments

7. In each of my audits since 1993, I have identified a significant level of error in maintenance assessments. The level of error was particularly high in the early years of child support and there has been considerable improvement more recently. Since maintenance assessments, once calculated, can stay in place for a number of years, the level of error in past years is likely to continue to impact on the amounts collected from non-resident parents and subsequently paid to the parent with care in the current year.

8. I acknowledge that the Department's problems have been due in part to inadequate and poorly performing IT systems developed by the GB child maintenance body to calculate assessments due under the relevant schemes. These systems continue to support individual cases and consequently contribute in particular to outstanding maintenance arrears figures in note 6.1 to the CMS Client Fund Account. The Department has previously told me that the underlying and fundamental weaknesses in both the Child Support Computer System (CSCS), used for cases beginning 1993 to 2003, and Child Support 2 system (CS2), used for cases beginning 2003 to 2013, cannot be addressed. As a result these systems are not fit for purpose but their underlying problems would be too costly to put right.

9. In December 2012 the Department introduced the Child Maintenance Scheme 2012 (CMS2012) and since 25 November

2013 all new cases are being processed through an IT system that supports this scheme. As part of the second phase of the reform programme, CMS continued, where possible, with the closure of liabilities on cases recorded on the CSCS and CS2 systems where parents had sought a reassessment. Parents with a new maintenance case now choose between making their own, family-based arrangement and applying to CMS2012. Where an application has been made to CMS2012, any outstanding arrears recorded on either CSCS or CS2 will transfer across to CMS2012. The intention had been, by the end of 2017-18, to have all cases except for arrears-only legacy cases managed on CMS2012 which would then allow for the closure of the legacy schemes and associated IT systems.

10. The Department told me the target date for ending liability on all legacy cases was amended from December 2017 to December 2018 to align with a change driven by DWP who provide and maintain the systems. Whilst a small number of cases with an ongoing liability remain on the legacy systems, CMS is on target to have the liability ended on these cases by December 2018.

11. The Department told me in relation to the accuracy of the legacy cases transferred to the new system, the assessments throughout the case history have all been checked to establish a stable arrears balance. All cases when closed go through an arrears cleanse process which involves management checks to ensure no action is outstanding on the case and that all payments/non-payments are included in the arrears total. The Legacy computer system performs an internal check to ensure the arrears balance is accurate and it will stop any arrears being transitioned if it recognises any action outstanding. Finally a check is completed by the finance teams to ensure the arrears balance leaving Legacy is accurately transitioned to CMS 2012.

12. CMS2012 uses a new computer system, separate from the two previous systems and it is able to obtain information on income directly from HMRC records so that assessments can be calculated automatically. This reduces the administrative burden of the process, creates more accurate assessments and operates more efficiently. I would encourage the Department to continue working with their GB counterparts to ensure the integrity of this system and I shall continue to monitor progress in this area.

13. The Department has established a Case Monitoring Team (CMT) within CMS to provide estimates of the level of error in maintenance assessments (cash value accuracy). I am satisfied that this approach is reasonable and that the results produced by CMT represent the best available measure of cash value accuracy and are a reasonable estimate of the rate of errors in maintenance assessments.

14. Cash Value Accuracy is a percentage of the number of correct assessments against the number of incorrect assessments. The Department has set a target of 97 per cent. Since 2016-17 the Cash Value Accuracy actual figures only contain the results of CMS2012 cases. **Figure 1** shows accuracy performance against the target.

Figure 1: Cash Value Accuracy of Maintenance Assessments

	2013-14	2014-15	2015-16	2016-17	**2017-18**
Cash Value Accuracy Target	97%	97%	97%	97%	97%
CSCS and CS2 Cash Value Accuracy	98.1%	98.0%	96.2%	N/A	N/A
CMS 2012 Cash Value Accuracy	N/A	N/A	93.0%	97.1%	**97.1%**

Source: *Case Monitoring Team (CMT)*

15. The Department is required to calculate maintenance assessments in accordance with the relevant legislation. When an error is made in a maintenance assessment, both the receipt and associated payment are incorrect and have not complied with the relevant legislation. In my opinion the amount of error in relation to maintenance receipts and associated payments this year are significant because of errors in assessments made in previous years that continue to impact on the current year and the CMS assessment of 2.9 per cent error in the current year.

16. Therefore whilst the account properly presents the amounts of child maintenance received and paid in the year, I have qualified my audit opinion on the regularity of maintenance assessments on which the receipts and payments reported in the account are calculated. This is due to the levels of error identified in assessments made in previous years and the CMS assessment of 2.9 per cent error in assessments made in the current year. The assessments are not in accordance with the legislation governing them and therefore are not in line with the purposes intended by the Assembly. **Figure 2** shows maintenance receipts and payments since 2013-14.

Figure 2: Maintenance Receipts and Payments

	2013-14 £millions	2014-15 £millions	2015-16 £millions	2016-17 £millions	**2017-18 £millions**
Total Receipts	£19.4	£17.1	£13.1	£9.9	£5.5
Totals Payments	£19.3	£17.4	£13.3	£10.1	**£5.5**

Source: *CMS Accounts 2013-14 to 2017-18*

17. A signifancant element of CMS2012 is the Direct Pay service, where parents can organise payments between themselves based on a CMS calculation. Two thirds of parents using CMS2012 are now using this service and avoiding collection charges. As a result the level of receipts and payments has steadily declined with the ongoing implementation of CMS2012.

18. Last year I noted that Department had ceased to test the level of error in CSCS and CS2 cases. I asked the Department to comment on this and it told me that for the year to 31 March 2017, it was not able to determine the assessment accuracy for the CSCS and CS2. The closure of existing cases throughout the year meant it was not possible to generate a statistically valid sample of cases to test.

19. The Department told me that CMS2012 decisions are mainly fully automated but some of the more complex cases require user intervention. The performance target for the 2017-18 year was to achieve a cash value accuracy level of 97 per cent by 31st March 2018 for CMS2012 where a user intervention was required. The volume of cases selected for assessment is based on a formula provided by the Department's statisticians and at the 31th March 2018 the accuracy for CMS2012 user intervention cases was 97.1%.

Disclaimed Audit Opinion – Note 6.1 Outstanding maintenance arrears

20. Where the Department is responsible for collecting child maintenance payments from non-resident parents but those payments are not received, then this is recorded as maintenance arrears and the total amount of unpaid maintenance assessments is shown in note 6.1 to the accounts – see **figure 3**. This figure is based on the accounting records from three systems noted at paragraphs 8 and 9 (CSCS, CS2 and CMS2012) and at 31 March 2018 total £61.2 million.

Figure 3: Outstanding Maintenance arrears

System	At 31 March 2014 £'000	At 31 March 2015 £'000	At 31 March 2016 £'000	At 31 March 2017 £'000	**At 31 March 2018 £'000**
Child Support Computer System (CSCS) introduced 1993	£28.1	£22.7	£18.9	£13.2	£11.1
CS2 (introduced 2003)	£50.5	£45.2	£39.4	£35.1	£32.3
CMS 2012[1] (introduced December 2012)	£0.3	£1.1	£5.4	£13.4	£17.8
Total	£78.9	£69.0	£63.7	£61.7	**£61.2**

Source: *CMS Accounts 2017-18*

[1] CMS2012 arrears at at 31 March 2018 of £17.8 million includes £14.4 million of arrears transferred from CSCS and CS2.

21. The total of arrears at 31 March 2018 represents the cumulative amount of arrears since child support arrangements were established in 1993, being the amounts owed by the non resident parent to the parent with care. Current legislation only allows the Department to write off arrears in very limited circumstances, for example where the parent with care no longer wants the arrears collected. I note that the reduction in the outstanding maintenance arrears figure has been achieved mainly by CMS making use of write off powers introduced in December 2012 as part of Write Off and Part Payment legislation, resulting in £2.2 million of outstanding arrears being written off in 2017-18 (2016-17: £3.1 million). I asked the Department to comment on its plans to reduce maintenance arrears further in the future.

22. The Department advised me that DWP carried out a public consultation from December 2017 to February 2018 which included proposals for dealing with the remaining arrears on the Legacy Schemes, with Northern Ireland included in the consultation. The response to this consultation will be published later this year and will outline plans to address the historic arrears. It is anticipated that Northern Ireland will adopt a similar approach to DWP in moving this forward, subject to the appropriate approvals and the provision of additional regulations.

23. The CSCS and CS2 IT systems have a long history of problems and are unable to directly generate the information needed to prepare the arrears figure in the Account, on a case by case basis. The outstanding maintenance arrears at 31 March 2018 comprises numerous individual cases and can only be derived from CSCS and CS2 using a series of complex manual workarounds, in addition to the balance from the new CMS 2012 system. In the absence of accurate information to support the £43.4 million outstanding maintenance arrears balance from the CSCS and CS2 systems, my examination of this amount was severely limited as there is no reliable evidence available to support the arrears balances relating to these systems.

24. The CMS 2012 system does however enable the Department to substantiate the balances of maintenance arrears on a case by case basis. However, the Department is not reviewing the arrears balances transferred to CMS2012 for case accuracy. There were 13,746 cases on the CMS2012 system at 31 March 2018 with an outstanding maintenance arrears balance of £17.8 million; of this amount £14.4 million was transferred from CSCS and CS2. The balance of arrears of £3.4 million is not significant in comparison to the £61.2 million total of outstanding maintenance arrears at note 6.1 and for that reason the note is still disclaimed.

25. In relation to note 6.1 only, I was unable to conclude on the accuracy and completeness of the maintenance arrears balances and therefore my audit opinion in respect of this note is disclaimed. This type of audit qualification reflects the fact that I consider the uncertainties in relation to maintenance arrears to be both material and pervasive to that note.

26. I recognise that it is difficult for the Department to fully resolve this issue as it has been caused by IT problems that go back to the beginning of the Department's involvement in child support arrangements. The Department told me that significant attempts have been made in recent years to generate arrears listing reports on a case by case basis; however, due to the limitations of the Child Support IT systems, CSCS and CS2, it has not been possible to generate accurate case listings which fully reconcile to the Client Funds Account. The Department has also told me it has implemented a range of operational reports which allow the Department to focus recovery action in non-compliant cases. With the implementation of the 2012 Scheme, the significant improvements delivered to date have enabled the Department to provide an accurate arrears listing for CMS2012 cases. The availability of this arrears listing enables the Department to meet the requirement of Recommendation 10 of the 2008 Public Accounts Committee report[2] for CMS2012 cases.

Other issues

Outstanding maintenance arrears and its collectability

27. The Department has assessed that £47.8 million is considered to be probably and possibly uncollectable following the application of the latest collectability review in the year ending 31 March 2018. This means that the Department now considers that it is likely to collect less than around 22 per cent of the total maintenance arrears balance. The Department has also told me that the arrears balance on the Client Funds Account has been accumulating since 1993. As this balance ages, it becomes increasingly difficult to collect. In addition, there are other factors which limit the Department's ability to collect arrears such as the significant percentage of paying parents who remain on benefits. Additionally, the Department's current policy direction in respect of Child Maintenance has been to promote and support separating families in establishing effective family based arrangements. The Department told me that the overall impact of these policy and legislative changes is a reducing caseload, a higher proportion of which will be older cases with arrears balances that are extremely difficult to collect and were the Department's options for legal enforcement are severely limited. The Department told me these limitations have a direct impact on the Department's ability to collect outstanding maintenance arrears, which in many cases date back to the 1993 scheme.

28. In 2016-17 the Department for Work and Pensions (DWP) commissioned a review of collectability analysing the circumstances of over 32,000 clients in Great Britain who had accumulated levels of unpaid maintenance that exceeded £1,000. The review concluded that, at the point of analysis, around one third of the clients were in financial difficulty or did not have a residential address. Despite this, DWP still considers that all arrears were probably collectable at March 2017.
The DWP issued a consultation document in December 2017 where comments were invited on increasing the collection powers to address non-payments for those clients

[2] Report on Northern Ireland Resource Accounts – Northern Ireland Child Support Agency Client Funds 2003-04 – 2006-07.

who are evading maintenance payments. This consultation closed in February 2018 and DWP plan to look again at the collectability position in 2018.

29. The Department' expects to undertake a full review of CMS2012 collectability in 2017-18 in light of the work of the DWP Collectabilty report. Whilst a separate exercise is yet to be carried out for Northern Ireland, it is not anticipated that the level of collectability for unpaid maintenance would differ significantly from that seen in GB.

Enforcement of arrears

30. The Department has a number of options open to it to try to pursue outstanding maintenance arrears and the use of these options is detailed in **Figure 4** below. Whilst I acknowledge that some of these options may be difficult to administer, I note that the Department has used enforcement powers in 13.47 per cent of its arrears cases and that the total number of cases where enforcement powers have been used has increased in 2017-18. I would encourage the Department to further increase its utilisation of these powers.

Figure 4: Cases where enforcement powers have been used by CMS

Enforcement Powers	2013–14 Number	2014–15 Number	2015–16 Number	2016–17 Number	**2017–18 Number**
Deductions from earnings orders[3]	3,718	2,682	2,199	1,742	2,746
Liability orders[4]	86	118	67	82	23
Lump Sum Deduction orders[5]	95	115	95	55	39
Regular Deduction orders[6]	31	29	65	32	16
Application to courts to force property/land to be sold	0	0	0	1	1
Total	3,930	2,944	2,426	1,912	**2,825**
Number of cases in arrears	31,481	25,715	18,380	22,643	**20,972**
Percentage of cases where enforcement powers are in place	12.5%	11.4%	13.2%	8.44%	**13.47%**

Source: *CMS*

[3] Deductions from earnings orders allow maintenance and arrears totalling up to 40 per cent of the non-resident parent's net income to be deducted by employers. (The number of Deduction from Earnings Orders in Legacy schemes was 1273 with a further 1473 in 2012 scheme)

[4] Liability orders are the first step to other civil enforcement measures using the Court system.

[5] Lump sum deduction orders can be attached to savings accounts to recover child maintenance arrears.

[6] Regular deduction orders are used to collect arrears at regular intervals.

31. The Department has told me that whilst they exercised their enforcement powers in more cases this year, going forward with the on-going closure of the legacy caseload this will reduce the number of cases where Enforcement action is required in the coming year. However, the number of cases contributing to a current liability remains high at 91.92% as at 31 March 2018. The Department noted that its focus continues to be on prevention and management of arrears by ensuring more parents pay the child maintenance they owe, not only in full but on time. This ensures more money flows to children and avoids increasing the level of unpaid maintenance owed by parents for their children. This improvement in collections has also reduced the requirement to refer cases to the Child Maintenance Service Legal Enforcement Team. The Child Maintenance Service provides information and support to help separated and separating parents collaborate together and put in place their own family based arrangements that best suit their particular circumstances.

32. The Department has also told me that Child Maintenance Service continues to work closely with the Enforcement of Judgements Office (EJO) to take enforcement action, where appropriate, in cases where parents are unwilling to meet child maintenance responsibilities and deliberately avoid making payments. The Department will continue to use the full extent of the enforcement powers available to it and will actively pursue enforcement action when it is appropriate to do so.

Conclusion

33. I have qualified my opinion on the regularity of receipts (£5.5 million) and payments (£5.5 million) because I consider the estimated level of error in maintenance assessments to be material and therefore the receipts and payments do not conform to the authorities which govern them. In respect of my work relating to the outstanding maintenance arrears balance of £61.2 million within note 6.1, I was unable to obtain sufficient evidence to support this balance and accordingly I am unable to express an opinion on this note.

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