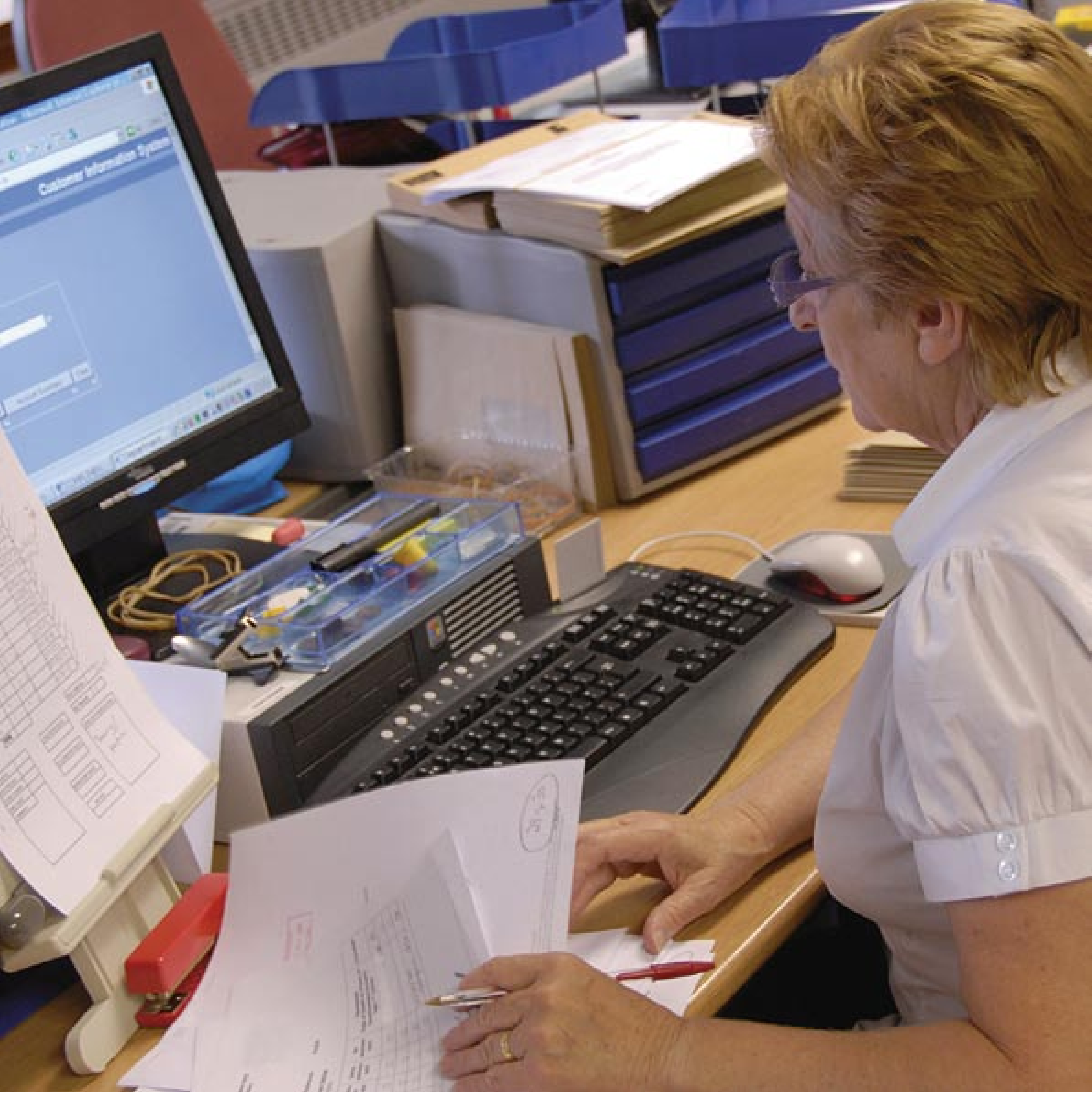

National Audit Office

DEPARTMENT FOR WORK AND PENSIONS

Management of Benefit Overpayment Debt

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 294 Session 2008-2009 | 1 May 2009

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National Audit Office

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This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

Tim Burr
Comptroller and Auditor General
National Audit Office

28 April 2009

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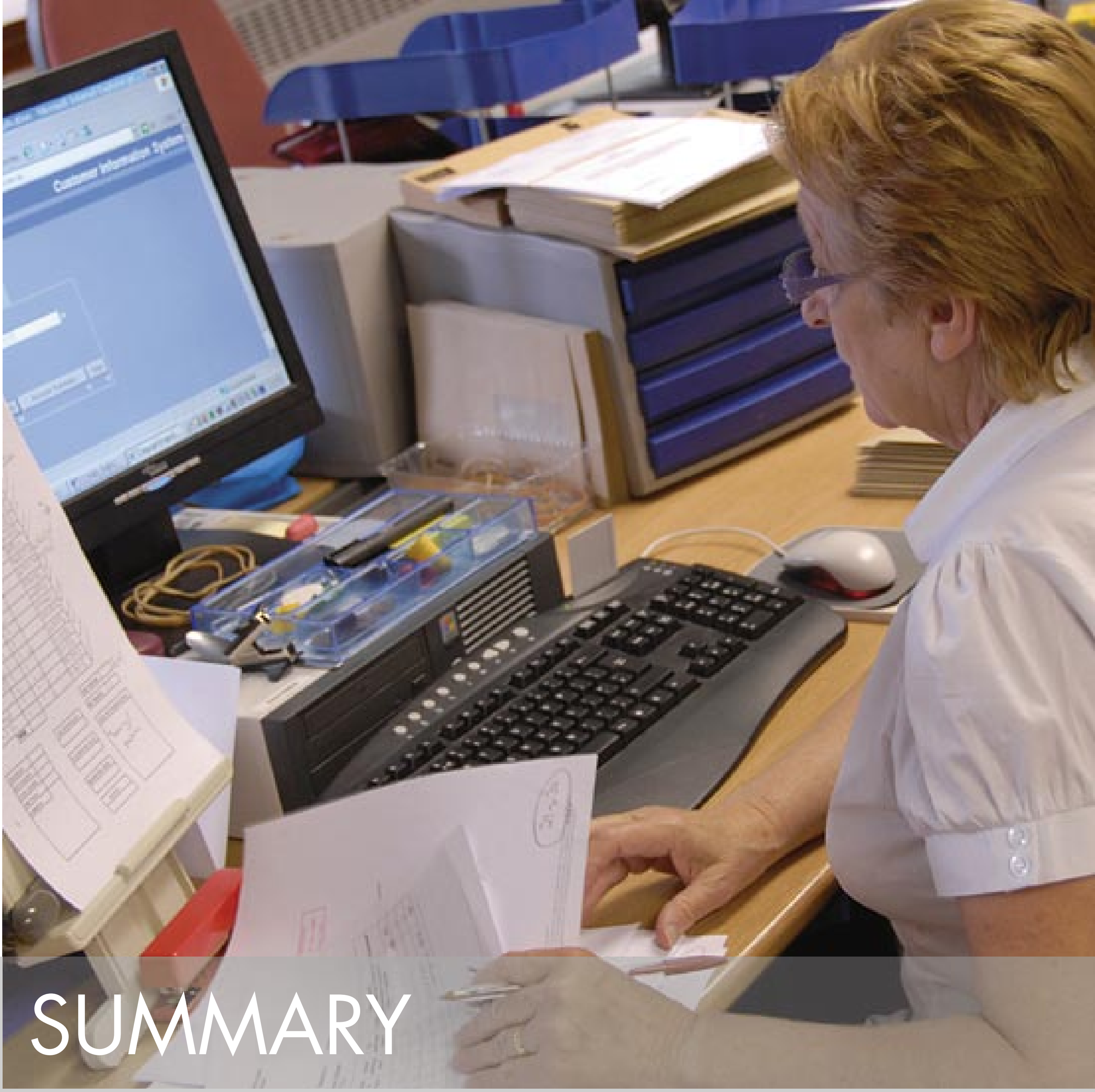


SUMMARY

1 In 2007-08 the Department for Work and Pensions (the Department) paid out £126 billion in benefit payments, of which £106.5 billion was in respect of benefits paid directly by the Department and £19.6 billion in respect of benefits paid on the Department's behalf by local authorities. In the same period, it identified 1.3 million overpayments with a total value of £558 million. As at 31 March 2008, the Department had a total identified debt stock of almost £1.8 billion resulting from the overpayment of benefits, for example, because customers' circumstances had changed. Where these overpayments are caused by the customer failing to inform the Department of such changes, the debt is normally recoverable. In 2007-08 the Department collected over £272 million in debts from 1.6 million customers.

2 This report examines the Department's debt management processes, and its associated costs, from the identification of an overpayment to debt recovery. The study does not consider the underlying reasons for benefit overpayments which will be covered in future work on Official and Customer Error. Nor does it cover Housing Benefit which is administered by local authorities.

3 In January 2009 the Department took the decision to temporarily re-deploy 300 of the 1,900 Debt Management staff, for a six-month period from January to June 2009, to assist Jobcentre Plus with new claims resulting from increasing levels of unemployment.

Key findings

4 The Department has improved its performance in identifying overpayments and increasing the rate at which overpayments are referred to the central debt management team for assessment and recovery. It has also implemented improvements in its systems for recovering benefit overpayments arising from changes in claimants' circumstances.

The Department has been successful in improving the effectiveness of its debt identification, referral and recovery procedures, increasing cash recoveries from £180 million in 2005-06 to £272 million in 2007-08. The Department considers that from March 2008 the majority of overpayments that could be identified in the normal course of business were being referred for recovery decisions in a timely manner. The C&AG in his report on the Department's Resource Accounts for 2007-08 stated "there is sufficient evidence that significant performance improvements were achieved by the year end".

5 The Department has also improved its debt management process leading to increased cash recoveries of £233 million in 2006-07 and £272 million in 2007-08 compared with £180 million in 2005-06. The temporary redeployment of staff from Debt Management is, however, likely to affect the Department's ability to maintain this progress for 2009-10. Unaudited preliminary results for 2008-09 suggest that the Department is likely to achieve its recovery target of £279 million.

6 Statutory limits on the weekly amounts which can be recovered from debtors together with the financial circumstances of many of the Department's customers mean that the total debt due to the Department is increasing as recoveries are not keeping pace with the increase in referrals achieved by the Department. The current economic downturn will place further pressure on the level of debt. The Department was owed some £1.78 billion at 31 March 2008, an increase of 6.6 per cent on the £1.67 billion outstanding at 31 March 2007. The Department's ability to accelerate recovery is limited by a number of factors.

7 For debtors still claiming benefit, Social Security legislation limits the weekly amount which can be deducted from income-related benefits to a maximum of £9.15 per week (or £12 if the overpayment arises from fraud). For debtors no longer on benefit Departmental data suggest an average recovery of £8.38 per week or £103.21 if paid as a lump sum. For contributory benefits, the Department can deduct up to a third of the benefit payment. More than 20 per cent of debtors owe over £1,000, a sum which would take over two years to repay at around £9 per week. There are over 31,000 debtors who each owe more than £10,000.

8 Only one debt is recovered at a time as the Department's policy is not to recover debts simultaneously. Around a third of the 1.5 million on-benefit and off-benefit debtors in November 2008 had two or more debts with about nine per cent having four or more debts.

9 Tracing and making recoveries from debtors no longer in receipt of benefit can be challenging. Over a third of debtors no longer on benefit with debts over three years old have never made a payment since the Department's central IT debt management system was introduced in 2005. Forty per cent of the £1.8 billion owed by all overpayment debtors at 31 March 2008 was registered as a debt by the Department more than five years previously, including £252 million registered over ten years ago. The Department plans to review its write off policy to better reflect realistic prospects of recovery of older debt. In negotiating repayment terms with off-benefit debtors, the Department relies largely on the good faith of the customer in reporting their financial circumstances accurately.

10 The Department's debt is not always the only debt a claimant may have. It is the Department's policy to place overpayment recovery below the legislative requirements in respect of deductions from prescribed benefits. The Department's rationale is that where these legislative deductions are being taken, the customer may be suffering hardship. The policy is that repayment of an overpayment should not cause undue financial hardship.

11 Helping customers avoid getting into debt is beneficial for the Department and for customers in enabling them to better manage their financial position. The increasing total level of debt reflects the challenges faced by the Department in recovering money once overpayments have occurred. Overpayments arising from Income Support accounted for over 70 per cent of all debts at 31 March 2008. As a means-tested benefit, Income Support case checks are risk-based. The case system sets an initial case check on the basis of certain triggers such as the claimant having savings over £5,500, an occupational pension, part-time earnings, dependent children aged 16 or over and the level of housing costs.

12 Review dates are usually annual, although they can be more frequent, and are linked to known likely dates of changes in circumstances such as April for many occupational pension increases. The element which triggers the review, for example, the occupational pension, is followed up but the review does not usually comprise a full case check. The Department also uses other measures to check customers' circumstances such as its general matching service, work-focused interviews, error reduction activity and customer compliance risk cases such as those recently separated, possibly living together and the previously self employed. Prompting notification of or identifying changes in circumstances at the "right time" is a key factor in reducing overall debt levels.

13 Estimated costs for the Department's debt management operations suggest that nearly £2.94 is recovered for every £1 spent; but the Department has limited data on the relative costs and success rates of particular recovery routes such as the issue of recovery letters or allocation of debts to the private sector. The Department does not measure the speed of processing from notification of a change in circumstance to referral and recovery or enforcement. It does not measure the average time taken to collect debts or the percentage of debts collected within specified timescales. Nor does it use information on customer behaviour to build up risk profiles for customers to prioritise and tailor debt collection and recovery negotiations.

14 In 2007-08 some £9.3 million of small overpayments below £65 were written off, but the Department does not differentiate between on-and off-benefit debts or different recovery routes in assessing the unit cost of recovery to determine the value for money of recovery action.

15 The current interface between the Department's agencies and its Debt Management Client Referral Centres in referring overpayments is inefficient in relation to duplication and re-inputting of data. The Department has already been looking at ways to make the process more efficient and has plans to introduce an e-referral system to be fully operational in 2011. The new system will automate the front-end debt referral system and eliminate this duplication and re-inputting of data.

16 The Department's annual estimates of fraud and error within the benefit system suggest an historically higher level of debt than that identified and pursued. For the last 20 years, the Department's accounts have reported an estimated annual fraud and customer error figure, which was £1.78 billion in 2007-08. This annual exercise estimates a global overpayment error, but does not identify the individual claimants who have been overpaid. Actual benefit overpayments can only be identified within the paying agencies from actual cases where fraud and error has been identified and accepted by the customer.

During the 2007-08 financial year the Department assessed the value for money of pursuing overpayments from earlier years taking account of the cost and likelihood of recovery and concluded that pursuing such overpayments was uneconomic unless the overpayment was identified in the normal course of business. The Department agreed with the Treasury, on value for money grounds, that unidentified, unrecorded overpayments arising prior to April 2007 need not be pursued other than where they are identified in the normal course of business.

Conclusion on value for money

The Department has improved the efficiency and effectiveness of its debt management operations, leading to more overpayments being identified and referred for debt recovery action and increasing cash recoveries from £180 million in 2005-06 to £272 million in 2007-08. The Department recovers about £3 for every £1 spent on debt recovery operations, though recoveries in 2007-08 represent only some fifteen per cent of the identified customer debt outstanding at 31 March 2008 of £1.8 billion. Recoveries are moreover not keeping pace with the increasing rates of referral, and the risk of non-recovery will grow. In practice not all debt will be recovered, given the financial circumstances of the Department's customers and the statutory limitations on the Department's ability to recover debts. Helping more customers stay out of debt is therefore an issue, as well as the rate of recovery.

Recommendations

a **The value of the Department's debt stock is increasing annually as the Department becomes more successful at identifying and referring debt for recovery, because of statutory and other limitations on the Department's ability to achieve a similar pace of increase in recoveries.** Focusing on Income Support initially, the Department should pilot increasing the number of proactive interventions to prompt customers to make it aware of changes in circumstances that affect benefit entitlement. Such an approach would also help the Department's customers to manage their financial affairs more effectively. The cost of such measures is likely to be offset by the savings made through reduced debt levels, lower write-offs and the time-value of public funds potentially inaccessible for many years because of the financial circumstances of customers and difficulties in staying in contact with them. There may be relatively simple interventions such as text messaging or phone contact which could be piloted for this purpose.

b **The Department uses risk analysis to identify customers more likely to commit fraud, but this approach has not been applied to debt collection and recovery.** The Department should develop risk profiles for different groups of customer using available information on characteristics and behaviour, and use the outcome to tailor and prioritise debt collection and recovery operations. Such techniques could also be used to identify groups most at risk of incurring debts to assist in prioritising debt prevention measures.

c **The Department does not monitor the cost-effectiveness of different interventions within the debt recovery process.** The Department should calculate the cost of its different methods of recovering debt (for example, letters, civil litigation, debt collection agencies etc) and the success rates of each (including amount and speed of recovery) to determine the relative cost-effectiveness of each and use the outcome to better target recovery effort.

d **The Department does not monitor performance across the debt management system as a whole.** The Department should broaden its range of measures, drawing on experience in the commercial sector and elsewhere in Government. In particular, the Department should use a wider set of performance indicators to provide data on, for example, the timeliness at each key stage of debt identification and of the end-to-end process from identification to recovery, and to monitor recoveries and reductions in the level of debt within particular age of debt groups (for example, within three months, three to six months, and over six months but within a year).

e **In negotiating repayments with off-benefit debtors' the Department relies largely on the good faith of the customer in declaring their financial circumstances and ability to pay.** The Department should improve the evidence base for decisions on repayment and instalment plans for off-benefit customers by, for example, seeking proof of earnings such as copy payslips. It should develop its Joint Working Initiative with Her Majesty's Revenue and Customs on information sharing, and a framework for assessing affordability in terms of customer outgoings. The Department should also introduce a structured and independent assessment of a sample of instalment plans for off-benefit customers in the same way as is applied currently to on-benefit customers.

f **The Department applies a single threshold of £65 below which small debts are written off on the grounds it is more costly to collect the debt below that level.** The Department should consider different write-off levels for each type of clearly identifiable case, for example, on-benefit and off-benefit or for more complex cases. The Department acknowledges that such differentiation could be investigated as complex cases incur a higher unit cost.

g **The Department monitors the outcome of Customer Appeals and Reconsiderations cases heard by the Social Security and Child Support Appeals Tribunal, and receives a report with a sample of appeal cases results and reasons why they were overturned where appropriate. The Department does not, however, keep a formal record of the success rates of appeals and is not, therefore, able to monitor the number of successful cases.** The Department should maintain a record of the outcome of appeals and in particular the reasons why customers appeal successfully, and use this information to inform staff training and debt referral and recovery.

PART ONE

Introduction

Background

1.1 In 2007-08 the Department for Work and Pensions (the Department) paid out £126 billion in benefit payments, of which £106.5 billion was in respect of benefits paid directly by the Department and £19.6 billion in respect of benefits paid on the Department's behalf by local authorities. In the same period, it identified 1.3 million overpayments with a value of £558 million. As at 31 March 2008 the Department had a total identified debt stock of almost £1.8 billion resulting from the overpayment of benefits, for example, because customers' circumstances had changed. Where these overpayments are caused by the customer failing to inform the Department of such changes, the debt is normally recoverable. In 2007-08 the Department collected over £272 million in debts from 1.6 million customers.

1.2 The Department's benefit payments are handled by its agencies ("the paying agencies"). Jobcentre Plus is the largest of the Department's agencies, employing 66,375 staff working in 48 districts, with 88 benefit delivery centres and 31 contact centres. Jobcentre Plus is directly responsible for administering £22 billion of payments, handling around 6.7 million claims during 2007-08. Principal benefits administered are Income Support, Jobseeker's Allowance and Incapacity Benefit. The Agency is also responsible for Bereavement Benefit, Statutory Maternity Pay, Severe Disablement Allowance and Industrial Injuries Benefit. Jobcentre Plus also acts as a gateway for a number of other benefits such as Housing Benefit that is administered by local authorities. The Disability and Carers Service employs around 6,000 staff and is responsible for £15.6 billion of benefit expenditure covering Disability Living Allowance, Attendance Allowance, and Carers Allowance. The Service has approximately 5.6 million claimants. The Pension Service employs around 12,000 staff paying benefits of £67 billion to approximately 12 million pensioners. The State Pension is the principal benefit together with State Pension Credit, accounting for around £64.2 billion of expenditure. The Agency also administers over £2 billion of Winter Fuel Payments and pensioners' Christmas Bonuses. On 1 April 2008, the Disability and Carers Service and the Pension Service merged to form The Pension, Disability and Carers Service.

The debt management process

1.3 The Department has a standard collection process **(Figure 1)** supported by manual and IT systems, which help to route debts to the Department's central debt management function:

- The paying Agencies (Jobcentre Plus, and the Pension, Disability and Carers Service) identify a potential overpayment and refer it to a Client Referral Centre.
- Three Client Referral Centres: Porth, Glasgow and Stornoway register overpayments referred by the Agencies on the Debt Management IT system, calculate the debt, and determine whether it is recoverable. A fourth Client Referral Centre at Washington undertakes the processing of small overpayments.
- A Debt Management Contact Centre initiates recovery proceedings with the debtor. There are five contact centres at Trafford, Bradford, Dearne Valley, Nuneaton and Corby. The Department also uses five private sector collection agencies to assist in recovery action.

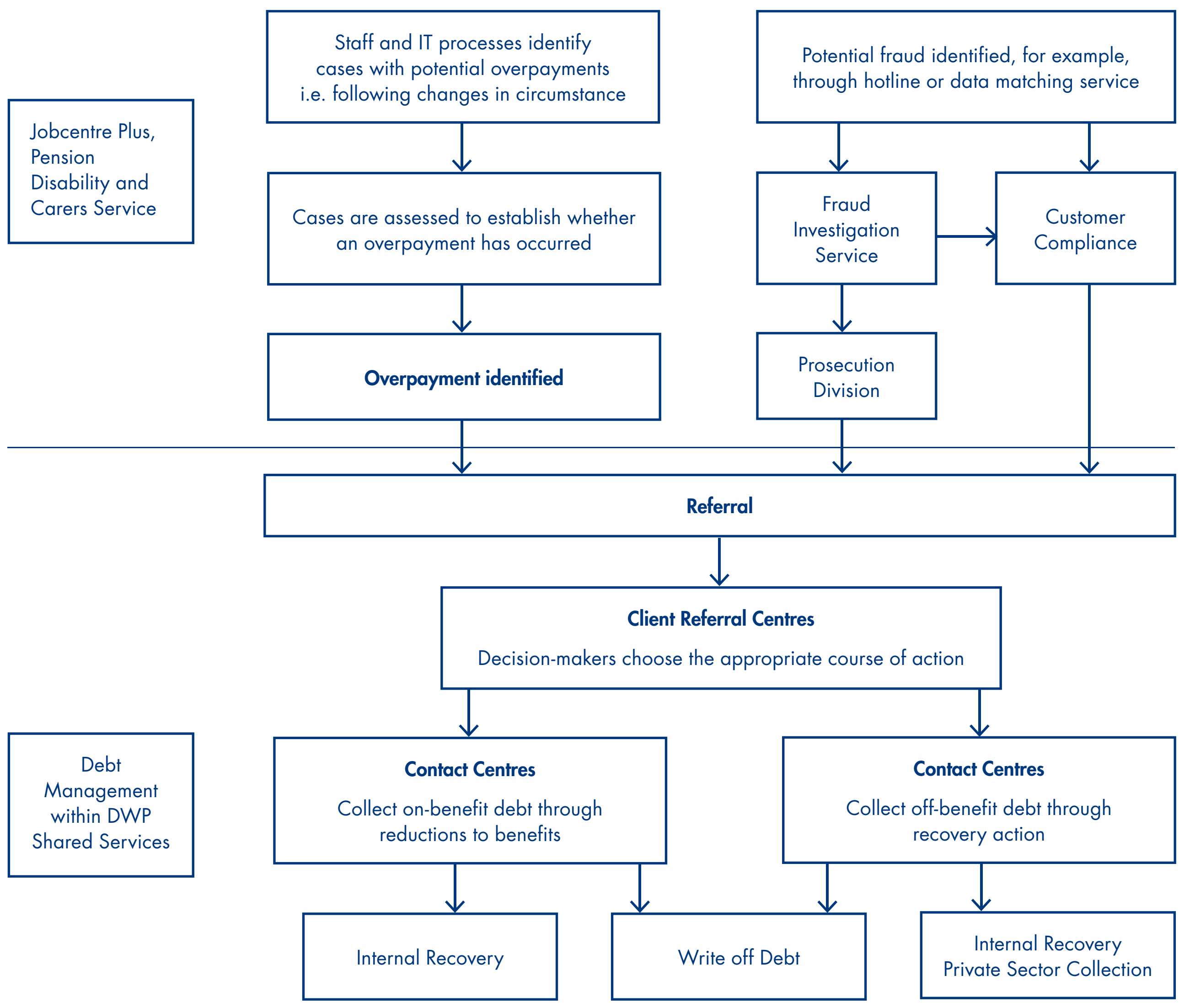
1.4 Some claimants who have been overpaid will still be in receipt of benefit ('on- benefit debtors') and others will have moved into paid employment ('off-benefit debtors'). Recoveries from on-benefit debtors can be made by deduction from future benefit payments. Recoveries from off-benefit debtors have to be negotiated, taking account of the debtor's ability to pay.

1.5 Prior to 2001 the paying Agencies were responsible for managing and recovering debt. The Department has made a series of changes to the way it manages debts, as shown in **Figure 2 overleaf**. The changes have centralised operations to recover debts.

Identification of Overpayments

Figure 3 overleaf sets out potential reasons for overpayments and the steps taken by paying agencies to identify them.

1 The process for managing customer overpayment debts



Source: National Audit Office

1.6 Overpayments are identified when customers inform the Department of a change in circumstances; through data matching exercises, periodic reviews of entitlement and implementation of initiatives arising out the Department's Fraud and Error Strategy. The agencies undertake reviews, for example, when there is a known date of change in circumstances. For a number of benefits, however, only the element that triggered the review is examined and the case is not subject to a full check. The Department's capacity to increase the number of reviews is also limited for State Pension Credit as it is subject to a statutory Assessed Income Period. This is a period of time (currently five years) during which the claimant's income is considered to be stable; the Department cannot initiate a review during this period. The Department does not collect management information or have targets for the speed of identification of overpayments because it is unable to generate reports from its legacy systems to record when a change of circumstance is identified and processed.

2 Organisational Changes in the Department's Debt Management

2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008

2001
Debt Management Division set up to manage debt centrally.

2005
New integrated Debt Management IT system (Debt Manager) implemented.

2006
Shared Services organisation set up incorporating Debt Management.

2007
One Debt Management Debt Centre and two smaller offices closed, three converted to Client Referral Centres and five converted to Contact Centres.

Two Debt Centres merged (Manchester and Salford) to create Trafford.

Small overpayments processed and centralised at Washington.

2001-2005: The 'Debt Programme' change agenda reduced the number of debt management offices from 126 to 10.

Source: National Audit Office

3 Examples of causes of overpayments and identification tools

Reason for overpayment	Steps taken to identify overpayment
Customers' circumstances change so that their entitlement to benefit is reduced. The Department can only change benefit entitlement and calculate the overpayment when the customer tells the Department of the change, or as a result of proactive reviews or data matching techniques.	When staff in the agencies amend benefits as a result of a change in circumstances, they should also identify whether an overpayment has occurred.
A payment is made into a customer's bank account after death.	Notification by next of kin, executor or registrar. Data matching techniques.
Initial benefit calculation incorrect.	The Department conducts performance measurement activities on a sample of cases to assess the accuracy of payments and some overpayments are identified through this activity. Data matching techniques.

Source: National Audit Office

1.7 The Department seeks to recover all overpayments where it is reasonable and cost-effective to do so. Recovery of fraudulent overpayments is pursued when someone admits fraud in an interview under caution or if they are found guilty of fraud by a court. Overpayments due to customer error are recoverable under social security legislation (*Social Security Administration Act 1992 Section 71*).

1.8 In the past, the Department has sought to recover overpayments due to official error where it determined it was reasonable to do so, using a common law right of restitution rather than Social Security legislation. Permission to apply for a judicial review of the Department's policy was granted to the Child Poverty Action Group on 6 February 2008. With effect from 10 March 2008 the Secretary of State gave an undertaking not to issue any further letters asking for overpaid benefit to be repaid in most newly arising official error overpayments, pending the outcome of this judicial review heard in January 2009. A judgement was made on 27 February 2009 confirming that a common law power existed and that the Department was entitled to ask for money back on the basis that the recipient was not entitled to receive it. The Child Poverty Action Group has, however, been given permission to appeal. No more letters will be sent out until the appeal judges have given their ruling.

Historic overpayment

1.9 For the last 20 years the Department's accounts have reported an estimated annual fraud and customer error figure. In 2007-08 this was £1.78 billion. This annual exercise estimates a global overpayment error but does not identify the individual claimants who have been overpaid. Actual benefit overpayments can only be identified within the paying agencies from actual cases where fraud and error has been identified and accepted by the customer.

1.10 From 1999-2000 to 2006-07, the audit opinion on the truth and fairness of the Department's accounts was qualified because of material uncertainties over the completeness of debtors arising from overpayments of benefits. The C&AG reported in the accounts for 2007-08 that *"in recent years, the Department has continued to address the matters that give rise to the longstanding qualifications of my opinion. The increase in the level of benefit overpayments referred for recovery means that I no longer need to qualify my opinion on the truth and fairness of the Department's accounts. This is a significant milestone towards meeting the Department's declared ambition to enable its accounts overall to be free of qualification"*.

1.11 During the 2007-08 financial year the Department assessed the value for money of identifying and pursuing all overpayments from earlier years taking account of the cost and likelihood of identifying recoverable debts compared with the likely recovery value. The Department concluded that pursuing overpayments arising in years prior to 2007-08 was not economic unless such overpayments were identified in the normal course of business. The Department obtained agreement from HM Treasury not to pursue unidentified overpayments from years prior to 2007.

1.12 The Department's exercises to assess the value for money of pursuing overpayments arising prior to April 2007 were undertaken on Pension Credit, Income Support and Incapacity Benefit. These benefits were considered by the Department to be at higher risk in terms of potential overpayments and high overpayment values (Appendix 3).

1.13 The exercises confirmed the Department's view that it was not economic to actively identify overpayments prior to 2007-08 due to the inability of current IT systems to target older overpayments. Recovery can also be difficult where the customer states that the Department was advised of a change in his or her circumstances. Some historic overpayments, nevertheless, continue to be identified and referred for recovery in the normal course of business, for example, through quality checking programmes

Purpose of this Report

1.14 This report examines the Department's management of identified debt arising from benefit overpayments, including the Department's identification, referral and recovery processes and the associated costs. In particular:

- Part Two looks at the extent and characteristics of the Department's benefit debt; and
- Part Three considers the referral and recovery processes.

1.15 The report does not consider the underlying causes of benefit overpayments as separate work is planned reviewing the Department's actions to reduce official error and customer error.

PART TWO

The Department's debt stock

Levels of Debt

2.1 As at 31 March 2008, the Department was owed £1.79 billion in identified benefit overpayment debts **(Figure 4)**, an increase of seven per cent from £1.67 billion in the previous year. The Department has classified over three-quarters of total debt as due to customer error, arising, for example, because a benefit customer fails to inform the Department about a change in circumstance (such as an increase in working hours) that affects his or her entitlement. In some cases the Department may conclude that the overpayment was the result of a deliberate attempt to defraud. At 31 March 2008, some £371 million of debt was classified as arising from fraud.

4 The Department's debt stock at 31 March 2008 analysed by cause

Classification	Value £m
Customer error	1,352
Fraud	371
Official error	30
Other	37
Total	**1,790**

Source: National Audit Office analysis of Departmental data

NOTE
Analysis excludes Social Fund and Housing Benefit debts.

2.2 Once the Department identifies a change in circumstance that has not been reported or recorded on time, whether from the customer or other means such as data matching exercises, it registers and refers the overpayment to a dedicated Debt Management function to determine whether it is recoverable or should be written off. The majority of benefit overpayment debts, £1.27 billion, representing 71 per cent of the total debt, relate to Income Support payments **(Figure 5)**. This benefit is largely means-tested with a high volume of high-value overpayments. The Department undertakes risk-based case checks on Income Support. Reviews take place annually unless a more frequent date is appropriate. At the time of the Department's intervention, only the element that triggered the review is examined; the case is not subject to a full case check. Other measures used to check customer circumstances include the General Matching Service[1] and Customer Compliance[2] checks.

2.3 As at 31 March 2008, 1.6 million people owed money to the Department as a result of receiving benefit overpayments – of whom 400,000 were still claiming benefit(s). This number includes Social Fund[3] debtors as the Department is unable to disaggregate data. The amount of individual debt varies considerably. As at 31 March 2008, 61 per cent of debtors owed less than £500, but some 31,000 debtors owed more than £10,000 each, and the largest balance outstanding was £153,714.[4]

1 General Matching Service conducts data matching – interrogation or comparison of two or more data sets to identify patterns or anomalies.
2 Customer Compliance Checks – used to correct cases of suspected benefit fraud where a full criminal investigation is not deemed appropriate.
3 Social Fund is administered by Jobcentre Plus. The Social Fund provides lump sum grants and loans. Loans and Community Care Grants from the Social Fund are discretionary and not for a standard amount.
4 The Department informs us that this case was successfully prosecuted and a confiscation order secured.

Age of Debt

2.4 Commercial organisations find that it is important to collect debt as quickly as possible as older debt is more difficult and more expensive to recover. Since 2007, general economic changes in the UK have led to a reduction in available credit, and lenders are focusing increasingly on collecting debts within the first 90 days. This is also partly as a result of changes to banking rules on providing for debt.[5]

2.5 For the Department, however, the rate of recovery is limited to a maximum of £9.15 per week when recovery is through deduction from a means-tested benefit. The Department's ability to recover debts from those customers no longer receiving benefit is limited on affordability grounds, and in particular the risk that debt repayments might mean that the customer would be better off returning to benefits rather than staying in paid employment. Data supplied by the Department suggests that the average weekly recovery from off-benefit debtors is £8.38. Approximately two-thirds of off-benefit debtors make payments by instalments, and one-third make a lump sum payment (estimated average £103.21). The average balance within each debt value category is shown below **(Figures 6 and 7 overleaf)** together with the potential recovery time based on £9 weekly repayments.

2.6 Around 60 per cent of the debtor volume may be recoverable within 12 months on average, 35 per cent within 18 months to five years on average, and around five per cent is likely to take a significant number of years to recover. When a debtor reaches pension age, Debt Management can recover up to a third of the retirement pension, thus reducing the timeframe for recovery, although the Department is unable to provide information on whether it has exercised this discretion.

5 The Department's debt stock as at 31 March 2008, analysed by benefit type and expenditure

Benefit	Total Exp 2007-08 £m	%	Value in debt stock £m	%
Income Support	9,100	7.2	1,267	70.7
Incapacity Benefit	6,700	5.3	137	7.7
Jobseeker's Allowance	2,200	1.7	136	7.6
Carers' Allowance	1,300	1.0	63	3.5
Pension Credit[1]	7,400	5.9	37	2.1
Disability Living Allowance	9,900	7.9	47	2.6
Retirement Pension (Contributions-based)	57,500	45.6	26	1.5
All other benefits	32,000	25.4	77	4.3
Total	**126,100**	**100.0**	**1,790**	**100.0**

Source: National Audit Office analysis of Departmenal data

NOTES

Analysis excludes Social Fund and Housing Benefit debts.

1 Pension Credit was introduced in October 2003.

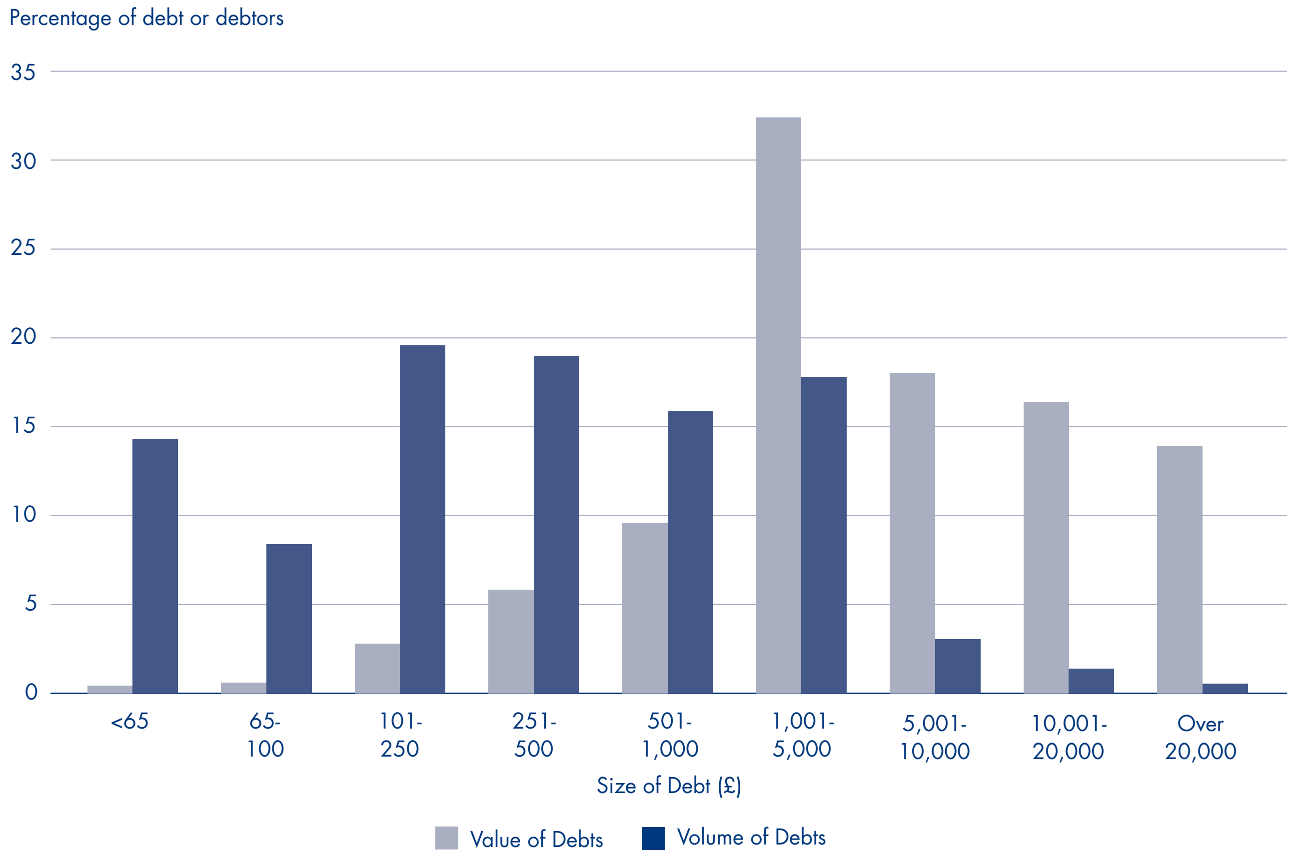
5 The Basle II Accord created international standards in banking laws and regulations which are used by banking regulators to determine how much capital banks need to put aside to guard against financial and operational risks. As part of the Accord, debts older than 90 days attract a higher risk rating and therefore require more capital to be put aside.

6 Average Debt Balances as at 31 March 2008

Debt Value £	Total Debt £m	Total Number of Debtors (000s)	Average Balance £	Number of Weeks to recover at £9 per week
<65	8.0	229.9	35	4
65-100	11.1	134.6	82	9
101-250	52.8	314.5	168	19
251-500	110.1	305.0	361	40
501-1,000	180.6	255.1	708	79
1,001-5,000	611.8	286.2	2,138	238
5,001-10,000	340.6	49.1	6,937	771
10,001-20,000	309.2	22.6	13,681	1,520
Over 20,000	263.0	8.6	30,581	3,398

Source: National Audit Office analysis of departmental data – includes Housing Benefit and Social Fund

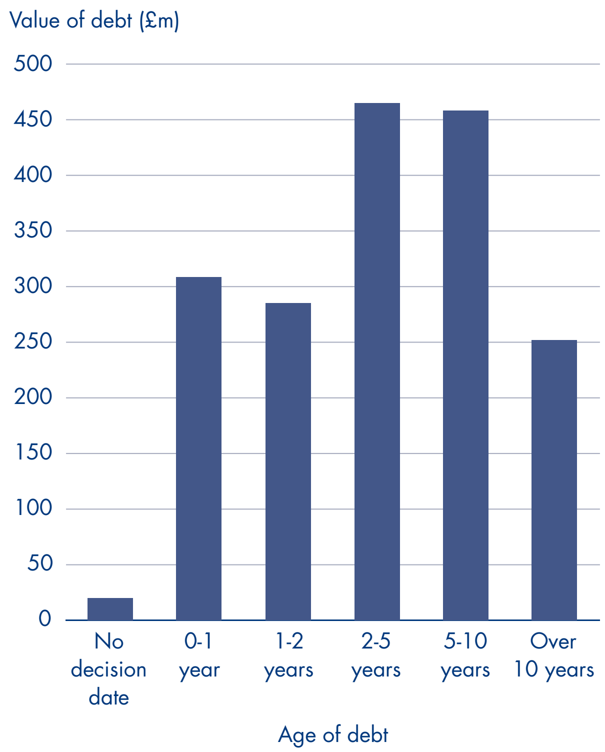
7 Value and Volume of Debts as at 31 March 2008



Source: National Audit Office analysis of departmental data

2.7 As at 31 March 2008, 40 per cent of the £1.78 billion owed to the Department from overpaid benefits had been registered as a debt more than five years previously, including £252 million recorded over 10 years ago **(Figure 8)**. These figures do not imply that some of these debts are not in recovery, but they do indicate the length of time a significant proportion of the Department's debt stock remains outstanding.

8 Analysis of debts by the age of the debt at 31 March 2008



Source: National Audit Office analysis of Departmental data

NOTE

Analysis excludes Social Fund and Housing Benefit debts.

Multiple Debts

2.8 The Department has a number of debtors with multiple debts. Multiple debts limit the Department's capacity to accelerate repayment rates, as only one debt is recovered at a time. Debt Manager (the overpayment recovery IT system) is programmed with specific payment allocation rules, which basically allocate payments to the earliest individual overpayment. Multiple debts account for 35 per cent of the number of debtors and 46 per cent by value **(Figure 9)**.

9 Volume and value of debtors with multiple debts as at 19 November 2008

Number of Live Debts	Number of Debtors	Current Balance £m
Single debt	969,939	1,020
2 debts	278,051	438
3 debts	108,434	196
4 debts	51,465	98
5 debts	27,883	51
6-10 debts	44,603	74
11-20 debts	12,000	17
Over 20 debts	895	2
Total	**1,493,270**	**1,896**

Source: Departmental Data

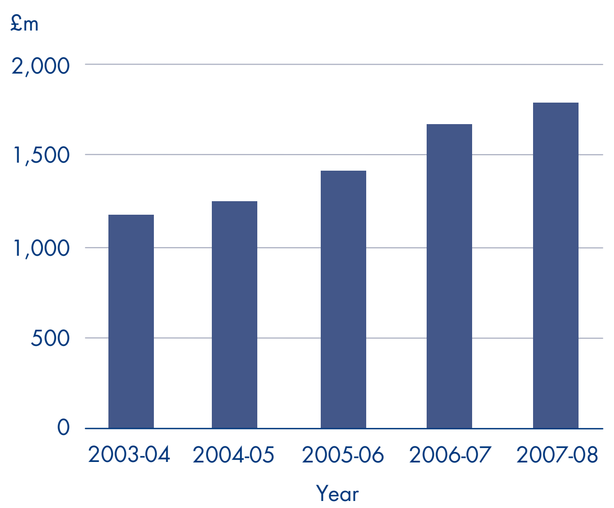
The Department's debt stock is growing

2.9 The Department has put significant effort into successfully increasing its referral volumes (as a step towards removing the qualification of its accounts), but limitations in its ability to recover debt mean that the debt stock is increasing **(Figure 10)**. As at 31 March 2008 the debt stock had risen to £1.78 billion. The proportion of recoveries to the total debt stock has risen from 13.3 per cent in 2005-06 to 15.3 per cent in 2007-08.

Measuring performance in managing debt

2.10 The Department monitors debt management activity on a monthly basis against a number of key performance indicators, including value of debt recovery, volume of referrals received, and accuracy of recoverability decision making. The Department does not measure the average time taken to collect all debt or how much debt is collected within 30 or 90 days. Debt collection operations in financial services and utilities currently use business-wide and individual customer data, and various indicators to monitor performance **(Figure 11)**. The Department measures performance against some, but not all, of these indicators. It considers these key performance indicators would need to be modified to be useful for benefit debtors because of the superior claims of other debt, low repayment thresholds and social policy considerations.

10 Value of Debt Stock 2003-04 to 2007-08



Source: National Audit Office analysis of Departmental data – analysis excludes Social Fund and Housing Benefit

2.11 The Department's Debt Manager system and reporting tools have the potential to provide the Department with significant management information that is not currently exploited fully. Key performance indicators used by commercial and other sectors would require adaptation, for example, for the inevitably longer recovery timescales reflected in the statutory provisions for benefit debt recovery, but using such management information would add further focus on the work already done by the Department to refer and recover more debt. The Department already has plans to review the potential for rationalisation and prioritisation of reports.

Risk profiling of debts

2.12 The Committee of Public Accounts report *The Recovery of Debt by the Inland Revenue (49th Report 2003-04*) recommended HMRC to develop scoring techniques to categorise debtors by risk, as used by other organisations. Risk scoring combines internal and external data such as socio-economic data and Credit Reference Agency data to gain an insight into customers' behaviour and level of indebtedness with other lenders and so to assign a score to debtors. The risk score can be used to group customers with similar characteristics and behaviours and identify the most appropriate collection strategy for each customer grouping. As a result, organisations can more readily provide direct support to those who do not understand their obligations or are in financial crisis, while dealing promptly with debtors who deliberately pay late. The Department considers that the application of similar risk-based techniques would have more limited utility in respect of benefit debtors because, by their very nature, benefit recipients are already identified as in need of support, although it does use such techniques to identify customers who are more likely to commit fraud.

2.13 The Department undertakes limited customer profiling, but the effectiveness of debt recovery across different debtor profiles e.g. age, sex, size of debt, debtor history is not measured or monitored by the Department at present. Further segmentation could facilitate a more efficient allocation of resources and help to improve cost per recovery rates. Customer profiling would also assist the Department in preventing debt accumulation through prompting reviews in more risky cases.

2.14 Other organisations have significantly improved their performance through risk profiling. Our recent report on the Management of Tax debt in Her Majesty's Revenue and Customs[6] gave the example of an energy supplier who used customer-level data to produce scoring models, segmented customers into groups, and tested alternative recovery strategies on different groups. The organisation reported reductions in total debt of eight per cent and in debt greater than six months old of 28 per cent. Similarly, a debt collection agency reported improvements ranging from 15 to 40 per cent in the amount collected for different debtor groups following the introduction of risk scoring.

Measuring the effectiveness of different collection activities

2.15 The Department can measure the amount of debt collected for every £1 spent but is unable to measure the cost to debt collected ratio for separate collection activities. We estimated that the debt collected: cost ratio in 2007-08 was £2.94:£1, based on the estimated total costs of the Debt Management function of £54.4 million and a further £9.1 million spent by the paying agencies. The Department has also provided us with indicative data on overheads for Debt Management of £29 million. Taken together, these figures give estimated total costs of debt management activities within the Department as £92.5 million. The Department has commenced a new baseline assessment of agency costs which is currently in progress.

11 Key Performance Indicators used by other organisations

Key Performance Indicators used by a range of other organisations	What the Department measures
Collection performance	
Debtor days = debt balance/receipts x 365 or Debtor days = debt balance/debt raised x 365. Measures the number of days worth of debt outstanding.	Measure not routinely produced. Due to increasing debt stock, for known reasons, collection performance focused on actual recovery vs target (rising); and active/inactive/delayed analysis.
Aged debt profile – the older the debt, the slower debt is being collected.	Annual aged debt analysis produced.
Collection efficiency: debt collected/full time equivalent staff.	Cost per £ recovered is a measure available to Debt Management.
Cost performance	
Yield-cost ratio by collection activity to monitor the cost effectiveness of different collection actions e.g. telephone centre.	Not currently collected.
Average cost of collection per debtor – measure of the cost effectiveness of the collection process.	Not currently collected.
Compliance performance	
Delinquency ratio: number of delinquent debtors/number of active debtors. Proportion of debtors who have missed several payments.	Specific ratio not measured.
Bad debt loss ratio: uncollectible debt/total debt – to monitor the proportion of uncollectible debt and possible future write-offs.[1]	The current data provided is those debtors not contactable at a given point in time.

Source: National Audit Office

NOTE

1 Write-offs are debts that are considered to be irrecoverable because in practice the Department cannot recover them and, are consequently, written off in the accounts.

6 HC 1152 Session 2007-2008.

PART THREE

Referring and recovering debt

Referring overpayments

3.1 The Department considers that by March 2008 the majority of overpayments that could be identified in the normal course of business were being referred for recovery decisions in a timely manner. Referrals have increased from 992,180 in 2005-06 to 1,322,144 in 2007-08 **(Figure 12)**. The total value of referrals in 2007-08 was £558 million. The 2007-08 referrals of 1.3 million exceeded the Department's target of 1.1 million for that year.

3.2 The Department is seeking to enhance the efficiency of the processes for identifying and recording debt. Currently, 90 per cent of referrals are passed 'electronically' to the Client Referral Centres by the paying agencies, but they are then printed out and re-input on to Debt Manager, creating significant duplication of effort and increasing the risk of errors. The Department is developing an E-Referral system that it expects to be fully operational from 2011-12.

3.3 Referral forms that do not contain all the required information or which contain errors are deemed to be non-quality referrals. These are returned to the referring agency for correction or to provide the additional information required. The total numbers and proportion of non-quality referrals from each agency are monitored by Debt Management **(Figure 13)**. Agencies have exceeded targets for 95 per cent of all referrals to be classified as 'quality'. Once a non-quality overpayment referral has been returned to an agency, the Client Referral Centres have limited monitoring systems in place to assess whether it is returned to Debt Management with the required or corrected information. It is possible, therefore, for legitimate referrals not to be actioned or returned to Debt Management.

Debt recovery

3.4 The Department recovered over £272 million in 2007-08. This represents a 17 per cent improvement on 2006-07, and 51 per cent improvement on 2005-06, increasing the total value of recoveries by £92 million. **Figure 14** records the type of payments received.

12 Increase in overpayment referral rates and recoveries 2005-06 to 2007-08

Year	Overpayment Referral Volumes	Year on Year % Change	Recoveries £m	Year on Year % Change
2007-08	1,322,144	+34.95	272	+16.7
2006-07	979,756	-1.25	233	+29.4
2005-06	992,180	N/A	180	N/A

Source: National Audit Office analysis of DWP data

NOTE
Analysis excludes Social Fund and Housing Benefit debts.

13 Non-Quality Referrals 2007-08

	Jobcentre Plus	The Pension Service	Disability and Carers Service
Number of referrals	721,022	437,213	163,909
Number of non-quality referrals	22,568	11,858	7,294
Percentage of non-quality referrals	3	3	4

Source: Departmental Data

NOTE
Analysis excludes Social Fund and Housing Benefit debts.

3.5 The Department is unable to measure the speed of recovery of its debt. The key start date ("date of input") is not available for a significant volume of debts because of migration from the legacy Debt Management system. Preliminary indicative data from the Department suggests, however, that the average weekly repayment for off-benefit customers is £8.38. The average one-off payment is £103.21. The ratio of customers paying debts by instalments as opposed to one-off payments is approximately 3:1. For benefit debtors, recovery is limited in means-tested benefits to the statutory weekly deduction of £9.15, or £12 if the debt arose as a result of fraud.

3.6 The Department's recovery policies for off-benefit debts need to navigate through two competing obligations. These are to maximise recovery of debts whilst ensuring that actions do not create disincentives for people to continue in employment and thereby create increased demand on the benefits system. The Department's staff and the Department's private sector collection agencies are aware of the risk of adopting unduly aggressive debt recovery agreements. The Department has not, however, undertaken any modelling research on the impact of debt recovery on the willingness of debtors to remain in employment. This research would facilitate a better understanding of trigger points on the behaviour of off-benefit debtors in particular.

3.7 Around 24 per cent of off-benefit debtors made a payment in the 12 months ended 30 September 2008. However, 61 per cent of off-benefit customers with a debt at 21 September 2008 have never made a payment since the Debt Management system was introduced in 2005.

3.8 The above analysis does not take account of those debtors who have paid off all outstanding debts within the period, and includes new debts still in the one month dispute period. Nevertheless, Departmental data shows that the proportion who have never made a payment is almost 34 per cent of off-benefit customers with debts over three years old, almost 10 per cent of those with debts between two and three years and a further 17 per cent with debts between one and two years.

14 Repayment of debt 2007-08

	£m	%
Deductions from Benefit	106	39
Value of all debts where a single payment cleared the balance	77	29
Cash by instalments (derived)	89	32
Total Recovery	272	100

Source: Departmental Data – excludes Housing Benefit and Social Fund

3.9 The Department's Debt Management Performance and Risk Report for October 2008 shows that:

- Twenty-four per cent are in 'recovery' – customers who have made a recent payment and still have an outstanding balance.
- Twenty-one per cent are 'in action' – customers who require action by a recovery agent, including customers with a live instalment plan who have not made a payment in the last two months and customers awaiting a refund, waiver or write-off.
- Fifty-five per cent are 'under system control' – customers who the Department is 'unable to pursue' due to the customer being 'system managed'. This category includes customers who the Department is unable to contact such as those in prison or who are appealing against all or part of their debt. It also includes customers who have been sent to a private sector collection agency.

3.10 For on-benefit customers, social security legislation limits the amount the Department can recover from debtors who are still on benefits. The amounts for income-related benefits are £9.15 per week, or up to £12.00 per week where the debt arose from fraud. For contributory benefits, deduction rates can be up to a third of personal benefit. The Department aims to agree a rate of recovery with those who are no longer claiming benefits at a level which is not so high that the debtor is incentivised to return to benefits, considering the circumstances of each individual debtor. Contact Centre staff also use this process for hardship considerations in on-benefit cases. The Department's debt is not always the only debt a claimant may have. Recovery amounts fall where there are other debts such as electricity, gas or water which have priority over the debt recovery reductions. In determining affordability, the Department will liaise with the debtor to complete an Income/Expenditure form. It will then negotiate a periodic repayment based on a determination of affordability.

3.11 Once contact has been made, the negotiation team at the Contact Centre attempt to agree a repayment plan with the debtor. The information provided by the debtor or their representative is normally accepted in good faith, unless information or local knowledge is held which refutes it. Where financial hardship is claimed, a full breakdown of the family income and expenditure is required (including that of any non-dependants). Any figures provided by the debtor are normally accepted at face value, although the customer signs a statement and the Department informs us that evidence is sought where the negotiator considers the assertions on expenditure to be extravagant or exaggerated. Where the figures shown are in doubt, however, verification will be required, or a more reasonable figure substituted (for example, expenditure for a TV licence claimed at £10 a week, instead of £9 a month; income for a four week benefit amount shown as a calendar month amount).

3.12 The Department does not operate a systematic verification framework for claims made by customers with respect to affordability assessments. There is a risk, therefore, that the Department does not have sufficient evidence of debtors' financial circumstances to make an informed judgement on affordability.

3.13 Once the debt has been calculated and the recoverability decision made, the Department will send out a letter setting out the debt, contact details for the Contact Centre and requesting payment. For off-benefit recovery processes, if no response is received, a further two letters are sent, each designed to encourage the customer to communicate with the Contact Centre. The first letter to the customer is issued 28 days after notification, and the successive reminder letters are sent after a further 14 days each. The Department sent almost 5.4 million letters to debtors in 2007-08. It does not, however, collect data on the relative effectiveness of these letters. Staff believe that the third letter is the most effective because it is the most strongly worded. For the on-benefit process, even if a customer does not respond to the notification of the overpayment the Department implements deductions and notifies the customer of this action.

3.14 It is common for people to move in and out of circumstances where they are entitled to benefits. The Department's Debt Management processes are designed to deal with these types of customers separately by using a single Contact Centre for off-benefit debtors and four others to handle on-benefit debtors. Repayments from these customers can stop for a period while their case is re-routed to the appropriate centre. Customers who move off-benefit will receive the same sequence of letters they received previously as an on-benefit customer for the same debt. The separate approach can lead to unnecessary delays, and limit the Department's ability to recover debts in a timely manner. In general, the sooner the action is taken the easier it is to collect a debt. The Department is in the process of extending off-benefit recovery work to its other Contact Centres.

CASE EXAMPLE 1

This Case Example sets out a case where a repayment plan was set and adhered to successfully.

A customer was overpaid Jobseeker's Allowance from the 10 May 2007 until the 23 October 2007; the overpayment amounted to £1,411.15. The Department sent out the first letter informing the customer of the overpayment on the 17 December 2007. The customer contacted the Contact Centre to set up a repayment plan after the first reminder letter was sent. The repayment plan started on 2 March 2008 and the full amount was repaid over four months. The final repayment was received on the 2 June 2008, seven months after the end of the overpayment period.

Source: National Audit Office review of a small sample of cases.
See Appendix 1, para 17

CASE EXAMPLE 2

This Case Example provides an example where a debtor was incorrectly moved to the on-benefit route.

A customer was overpaid Attendance Allowance from the 22 November 2003 until the 18 September 2005; the overpayment amounted to £3,591.65. Debt Manager sent out the first letter informing the customer of the overpayment on the 18 May 2006. The customer had not been in receipt of benefits since the overpayment but the case has been moved to the on-benefit route twice by Debt Manager and been moved back to the off-benefit route twice manually. Eleven letters have been sent since the initial letter in May 2006. No repayment had been made at the time of the National Audit Office review in August 2008.

Source: National Audit Office review of a small sample of cases.
See Appendix 1, para 17

Tracing customers

3.15 Cases where a customer's address is unknown, or where letters are returned as "not known at this address", are sent to the Trace Team to identify or confirm addresses. Tracing is conducted using a variety of matching techniques to identify up-to-date contact details, including data sharing. Work to explore the legality of sharing data across Government is ongoing, in particular with Her Majesty's Revenue and Customs. Data Protection legislation only allows the use of data for the purpose for which it was intended. A joint DWP and HMRC Team is seeking clarification on whether data extracted for debt recovery purposes by one Department can legitimately be shared with another on the grounds that it is all debt owed to the Government.

3.16 As at 30 September 2008, the Trace Team held 74,000 cases representing over £175 million of debt. The team's stock of work had increased by some 58 per cent since April 2008.

Private Sector Collection Firms

3.17 The number and value of cases that the Department sends to private sector collection agencies is influenced by available funding. The original overpayment represents tax payers' money that was incorrectly paid and the full amount of the recovery has to be returned to the Exchequer and not the Department, whereas the commission required to secure the recovery is a charge to the Department's resource account. The Department uses five private sector firms to recover more difficult debts. The contractors are paid commission based on a proportion of the debt they recover. The Department does not refer cases to the private sector firms if they meet the following criteria:

- the customer is of pension age and within six months of pension age;
- the debt relates to a Disability and Carers Service Benefit, or Housing Benefit;
- the total outstanding balance is less than £25;
- the account has appointee details, or third party details, solicitors, or correspondent details;
- if the debtor has a current payment plan in place;
- the case has had in-house enforcement action (although there is a pilot under way to send these to the private sector);
- the case is marked as sensitive;
- the case has previously been to the private sector but not recovered;
- the case is deemed non-recoverable;
- the account has an ongoing dispute, for example, an appeal; and
- the customer is in prison, is bankrupt, or deceased.

3.18 As part of the private sector collection referral process, the Department sends a final letter to the debtor stating that the case is about to be transferred to a private sector collection firm. The Department considers that this letter is successful in triggering a response from some debtors, but is unable to quantify in how many cases and to what value of recovery at present.

3.19 Between May 2005 and January 2006, no referrals to private sector collection agencies were made because of the introduction of the Debt Manager IT system. A second gap covered the period December 2007 to July 2008. The Department re-let the contract with the private sector recovery firms in April 2008. For a period of four months leading up to the re-awarding of the contracts, no new cases were transferred to the private sector firms because the Department wanted to reduce the numbers of cases with the firms in case any of the existing suppliers were unsuccessful in winning new contracts.

3.20 As at September 2008 there were 214,000 debts with a value of £205 million placed with the private sector collection agencies. In 2007-08 private sector firms recovered £8.4 million and were paid £1.5 million in commission **(Figure 15)**. It is not possible to directly compare the overall debt recovery ratio of £2.94:1 in 2007-08 with the private sector since the Department will have incurred costs in identifying cases to be referred to the private sector agencies and these are not included in the data presented in Figure 15.

3.21 Contracts were reviewed in 2006 during the negotiations with suppliers around contract extension and the Department tells us that three out of the four suppliers reduced their costs. In addition, £192 million of debt was forwarded under a one-off exercise to place a significant amount of additional debt with the private sector because of data migration issues associated with the implementation of the new Debt manager IT system.

15 Recoveries and Commission from Private Sector Collection Agencies

	2004-05 £m	2005-06 £m	2006-07 £m	2007-08 £m	Total £m
Recoveries	3.235	2.775	8.790	8.406	23.206
Commission	1.027	1.225	1.403	1.512	5.167

Source: Departmental Data

NOTE

Analysis includes Social Fund and Housing Benefit debts.

3.22 Historically, the Department has focused on the value of recoveries collected in monitoring the performance of the private sector collection agencies. The Department is planning to introduce a number of improvements, including monitoring data on:

- the volume and value of customers with a current arrangement to repay (plus the monthly value of repayments made);
- the volume and value of customers not currently repaying: the Department is currently analysing data between customers who are in mid-collection cycle where attempts to secure repayment are still being made actively, and customers who have reached the end of the collections cycle and are awaiting return to Debt Management; and
- value of recoveries generated as a result of the letter issued to customers immediately prior to transfer to the private sector firms.

Civil Litigation

3.23 The Department may use civil litigation where debtors fail to respond to recovery requests. The Department did not instigate any new civil litigation cases between the implementation of the Debt Manager system in 2005 and February 2008 due to budgetary restrictions and competing priorities. Since restarting civil litigation, the Department has obtained 1,414 court applications, 524 Attachment of Earnings and 40 Warrants of Execution, and generated some £50,000 in actual recoveries. The total value of debt under Civil Litigation action as at November 2008 was £39 million owed by 29,501 debtors. As at the end of July 2008, an initiative involving the sending of a further letter prior to referral for litigation had generated £27,404 actual in-house recovery, with additional instalment plans in place to the value of £508,870.

No Contact with Customer

3.24 Debts that the Department has been unable to recover, but which have not been passed to civil litigation or transferred to the private sector firms remain on Debt Manager indefinitely. Debt Manager sends a reminder letter out each six months so that the case remains active. The Department considers that the six monthly letter maintains contact, might generate a response should a debtor's circumstances change, and makes sure that the debtor remains aware of the debt. At November 2008, there were 110,729 debtors, with a debt value of £78.6 million, marked on Debt Manager as DLO (Dead Letter Office) or NFA (No Fixed Abode).

Small Overpayments

3.25 The Department has considered the value for money of pursuing recovery of small overpayments. Prior to 2007-08, it established a financial threshold of £40 below which it deemed debts to be uneconomic to pursue. With Treasury agreement, the Department increased the threshold to £65 for 2007-08 because of rises in the costs of administration. The revised limit was based on a percentage add-on for the actual costs of a debt referral from receipt by Debt Management through to recovery stage. It does not include any element for agency costs of referral as these costs have already been incurred before recovery action is determined.

3.26 Debt recovery policies and procedures should take account of the possible deterrent effects of recovery actions on customers' willingness to repay debts. The Department needs to avoid creating unnecessary hardship, but it also has a responsibility to communicate its willingness to pursue debt recovery by all legitimate means. The current small overpayment policy creates a risk that some debtors may become aware that no action will be taken against them for non-payment. The Department has not yet initiated research on the potential impact of the deterrent effect on recovery rates. Such research may provide useful additional data for an annual review of the threshold and recovery performance in general.

3.27 Where an overpayment is below the threshold for write-off, a referral form is sent electronically from the Agency to a Client Referral Centre where the majority of overpayments are automatically scheduled for write-off. Only a small percentage require manual intervention, and these are processed at the Client Referral Centre site that deals with the Agency benefit. Within Jobcentre Plus, two regions, London and Wales, are piloting the scheduling and write-off of small overpayments to remove the need for referral to Debt Management.

3.28 The total value of small overpayment written off in 2007-08 was £9.3 million compared to £2.0 million in 2006-07. Improvements in the way the Department records debt mean that it is now able to consider different write-off levels for classes of case which incur a higher unit cost because of the work involved, whilst retaining an equitable approach to all debtors.

Debt Recovery after death

3.29 Direct Payments after Death are caused by benefit payments going into the customer's bank account after his or her death. In 2007-08 the total value of such payments was £71.7 million, of which 61 per cent was recovered and 39 per cent written off.

3.30 Overpayments identified prior to the death of the customer are referred to a Recovery from Estates Team, whose main role is to identify (through a probate/benefit claim match), investigate, calculate and recover from the Estate previously undeclared assets. It is possible for these overpayments to be recorded on Debt Manager after Recovery from Estates has issued a nil letter to the customer's executors as occurred in case example 3.

3.31 At 31 March 2008, the total value of debt held within the Recovery from Estates team was £30,702,624. Recovery can be delayed when the Executor or next of kin has to obtain bank information which can involve a wait up to three months or more.

3.32 Of the estimated 10,400 estate cases assessed as a potential overpayment:

- Seventy-five per cent were cases where the evidence was readily available or the customer's representative was able to obtain bank information within 28 days, and therefore a claim letter should have been issued within three months.
- The Department informs us that approximately 23 per cent of cases are expected to take between three and five months. When the Recovery from Estates team asks the Executor or their Solicitors to provide bank information, such as copies of statements from the deceased's account, it can take some time to get a response. The delay could be either at the stage of the Executor asking for the information or at the bank stage, but the Department cannot differentiate between the two.

CASE EXAMPLE 3

This Case Example sets out a case where a claim letter was sent after a nil letter had been issued

The death of a customer was recorded on Debt Manager on the 21 December 2007. Probate was granted on the 9 January 2008. After several letters to the executor, a breakdown of assets was received on the 11 March 2008. The customer's assets were below the limit the Department uses to assess income of customers and, therefore, a nil letter was sent on the 11 March 2008. On the 2 April 2008, however, an overpayment of £193.50 for Attendance Allowance received whilst in hospital was identified and recorded on Debt Manager. A claim letter was sent to the executor on the 2 April 2008 (around three weeks after the nil letter) who immediately paid the full amount by cheque.

Source: National Audit Office review of a small sample of cases. See Appendix 1, para 17

Writing off debts

3.33 Total debt written off in 2007-08 was over £205 million, including £54.3 million of debt classified as 'mistake', or customer error **(Figure 16 overleaf)**. There are three significant increases in individual write offs over the two years: Fraud, Mistake and Official Error. The increases in Fraud, Mistake and Official Error write-offs in 2007-08 were as a result of several factors:

- Debt Manager held significant numbers of debts from the migration of debtor records from the old debt management system that were not in recovery and met abandonment criteria. A Debt Manager one-off housekeeping exercise was carried out in November 2007 to write off £40 million that satisfied standard abandonment criteria.
- The change in the small overpayment write-off limit from £40 to £65 with effect from 9 November 2007.
- The significant increase in referrals to 1.3 million in 2007-08 will also have had an impact on increasing write-offs for Fraud, Mistake and Official Error through the normal progression of the backlog cases through the process (i.e. request recovery, reminder, write-off if no reply) resulting in write-off increases.

16 Debt Write-offs by Classification 2006-07 and 2007-08

	2006-07 £	2007-08 £
Common Law	18,719,827	8,136,357
Fraud	775,472	4,470,936
Direct Payment after Death	27,293,020	27,130,774
Mistake	13,208,595	54,321,114
Non-Official Error	2,238,130	3,466,577
Official Error	50,840,469	102,361,863
No Description	1,750,188	712,775
Small Overpayment[1]	1,123,355	4,904,013
Total	**115,949,056**	**205,504,409**

Source: Departmental Data

NOTES

Common Law – payments made outside an award and not recoverable under Social Security legislation.

DPAD – Direct Payments made after death which fall under common law.

Fraud – all cases where there is a successful fraud prosecution or an admission of guilt.

Mistake – recoverable under social security legislation due to customer error, including unproven fraud.

Non-Official error – errors made but not through a fault by the Department or customer, e.g. advance payments sent out early for a Bank Holiday by the Department, or an employer providing incorrect earning details.

Official Error – overpayment caused by an error or omission by an officer or agency, or another Agency or Department. The material fact is known but the Department fails to action it timeously.

Other – (error by third party) – this is an overpayment caused by an error or omission by a third party, not acting on behalf of the customer.

1 Small Overpayments totalled £2.0 million 2006-07 and £9.3 million in 2007-08 in aggregate.

Analysis excludes Housing Benefit and Social Fund data.

Appeals and Reconsiderations

3.34 Customers are legally entitled to appeal against any decision made by the Department, including the entitlement decision that led to the overpayment or the recoverability decision. Details of how to appeal are set out in letters sent to the customer with each decision. As at 31 March 2008, over £126 million of the debt stock was the subject of ongoing appeals. Appeals are heard by the Social Security and Child Support Appeals Tribunal (the Tribunal) which is part of the Tribunals Service and independent of the Department. Appeal requests are, however, sent directly to the Department which collects the evidence and makes a submission to the Tribunal. The Department receives the "President of the Appeals Tribunal Report into Standards of Decision Making". This report samples volumes of appeal cases, and provides the result and reason why they were overturned where appropriate. The Department does not, however, keep a formal record of the success rates of appeals and is not, therefore, able to monitor the number of successful cases, or to use the learning from them to inform the staff training programmes, for example.

3.35 Appeals against the initial entitlement decision are referred to the Department's agencies to collate evidence and prepare the Tribunal submission, whereas appeals against the recoverability decision are referred to the Contact Centres. This approach can cause problems as most appeals about overpayments require evidence for both the entitlement and recoverability decisions. The Department does not collect data on the proportion of cases adjourned for this reason.

3.36 A backlog of 10,649 cases existed for Jobcentre Plus at the end of September 2008. The Department informs us that this has reduced to some 5,000 by the end of 2008. New appeals average four per cent and reconsiderations average five per cent of recoverability decisions. The Department has acknowledged the need to develop a range of information to inform future resource requirements more accurately, and it has plans to improve the management information in the Appeals and Reconsiderations process.

APPENDIX ONE

Scope and Methodology

Scope of the study

1 The study focused on the Department's management of benefit debt. We examined whether the Department refers overpayments effectively, whether it manages and prioritises debt effectively and whether it is effective in collecting and recovering those debts. Whilst we considered Departmental procedures for preventing debt arising, these will be reviewed in detail in planned future studies on Customer and Official Error.

Methodology

2 Our fieldwork took place between May and September 2008 and comprised the following methodologies:

- Analysis of the Department's performance data.
- Interviews, visits and process familiarisation.
- Performance and process modelling.
- Document review.
- Case File Review.
- Data integrity assurance.

Analysis of the Department's performance data

3 We conducted a comprehensive analysis of the Department's information on overpayment identification, referral, debt registration and recovery. The Department provided us with a range of management information drawn from Debt Manager and Business Objects. We analysed what cost and performance data were available from these reports and had a number of interviews with staff to test the accuracy of the data provided. We analysed:

- Monthly, activity, operational and management reports, including the Department's Debt Manager/Business Objects reporting tool.
- Financial information from the audit of the Department's Resource Accounts.
- Standard reports taken from the Department's debt systems, for example, on write-offs.
- Key performance indicator data where available.
- Reports from the Agencies, Client Referral Centre and Contact Centres where appropriate.
- We were also able to draw on our work auditing the Department's financial accounts.

4 We tried to undertake sampling of speed of processing in the absence of Departmental data. It was not possible to generate statistically significant information to measure the speed of recovery from the date of identification of an overpayment.

5 We conducted financial and statistical analysis on:

- Trends in the value of the debt stock, age profile of the debt and amount and reasons for debt written off.
- Trends in the volume and value of new debts.
- Trends in recovery.
- Trends in head of work queues for various elements of the end to end processing.

Interviews, visits and process familiarisation

6 We conducted interviews with senior personnel responsible for, or involved in, the Department's management of debt processes including: the allocated process owner from the Department's Financial Policy Team, the Head of Debt Management, Shared Services' Business Development & Technical Director, Debt Management Performance Directors and Agency and Client Referral Centre representatives. The discussions focused on their views of the Department's debt management processes, changes and improvements made from the inception of the new Debt Management function in 2001 and the findings and recommendations contained in this report.

7 Some of the fieldwork and analyses for the process modelling exercises were carried out by PWC, under the direction of the National Audit Office. The systems integrity review was completed by KPMG also under the direction of the National Audit Office.

8 We conducted semi-structured interviews with staff members involved in debt management and collection, including those in process and strategy, finance and operations, internal audit, agency debt champions, the Client Referral Centres and Contact Centres. We interviewed senior, policy, operational and front line staff members.

9 We also interviewed external stakeholders who have an interest in the Department's debt management policies and procedures including:

- Social Security and Child Support Appeals Tribunal.
- DWP Standards Committee.
- Credit Services Association.
- Citizens Advice Bureau.
- Local Authorities.

10 We visited several operational sites including the agencies at Merthyr Tydfil and Motherwell Pension Centre, the Client Referral Centres at Porth, Stornoway and Glasgow and Debt Centres in Bradford and Salford. During our visits, we interviewed senior and operational staff, observed operational activities such as processing of referrals and small overpayments and the debt recovery process.

11 We reviewed around 30 debtor case files. Our aim was to familiarise ourselves with the IT systems and processes used by staff to refer overpayments, register and collect debts, and to gain an understanding of how debts build up.

12 The information gathered in interviews, visits and process familiarisation was used to understand the context of relevant performance data, to inform and triangulate findings from the data and financial analysis.

Performance and Process Modelling

13 We undertook structured and un-structured interviews with staff at various locations within the Agencies, Client Referral Centres and Contact Centres to obtain an accurate record of the end-to-end process for referring overpayments, assessing, calculating and recovering debts. We also sought to confirm our findings through a facilitated workshop to validate the processes as recorded. The scope of the process under review was from identification of the overpayment to recovery or write-off of the debt. This, therefore, covered not only the activities undertaken by the Department but also those of the relevant benefits agencies. The activities within this work included:

- scoping the process modelling methodology;
- facilitating the collection of information from the client and documenting the workshops or interviews undertaken;
- preparing a map of each stage of the process with resource inputs, outputs and outcomes clearly identified;
- preparing a model of the end-to-end process identifying the scope to streamline the process, recover more debt for the same inputs or manage debt more cost effectively; and
- confirming the accuracy of the end-to-end process model with appropriate staff within the Department.

14 Our approach to the process mapping comprised:

- defining the process and sub-processes;
- individual face-to-face interviews with the Department's staff and observations of the processes as they were carried out;
- cross-functional process workshop with representatives from the agencies, Client Referral Centres and Contact Centre;
- workshop with private sector debt collection companies;
- qualitative and quantitative data collection including volumes, value of debt and processing times; and
- assessment of processes and data collection, evaluation of opportunities for improvement.

Document Review

15 We reviewed internal Departmental documents relating to debt:

- The Department's operational guidance on the management of debt from referral to recovery.
- Departmental documents, including the analysis of performance data.
- Business cases, project plans and evaluations of the pilots and initiatives relating to debt.

16 We also reviewed literature from other organisations on debt recovery procedures and overall performance in managing debt. This literature was analysed against findings from other methodologies.

Case File Review

17 We worked with the Department to provide a random sample of case file referrals to help us understand the issues facing the Department and the debtors themselves. We were provided with a random sample of 97 cases, and we then agreed the sampling criteria with the Department as follows:

- Ten cases each from Porth, Glasgow and Stornoway for off-benefit single debtors whose debt had been fully repaid within one year of input to DM.
- Ten cases each from Porth, Glasgow and Stornoway for off-benefit debtors who have an outstanding debt account balance as at 30 June 2008, where no repayments had been received within the last two years.
- Ten cases each from Porth, Glasgow and Stornoway for off-benefit single debtors whose debt was input to DM before 1 July 2006, there was an outstanding balance as at 30 June 2008 and some repayments had been received since input.

Data integrity assurance

18 We engaged contractors to provide assurance that the reports provided by the Department were accurately generated from the Fair Isaacs Debt Manager system and could be relied upon by ourselves. The work was divided into three main areas:

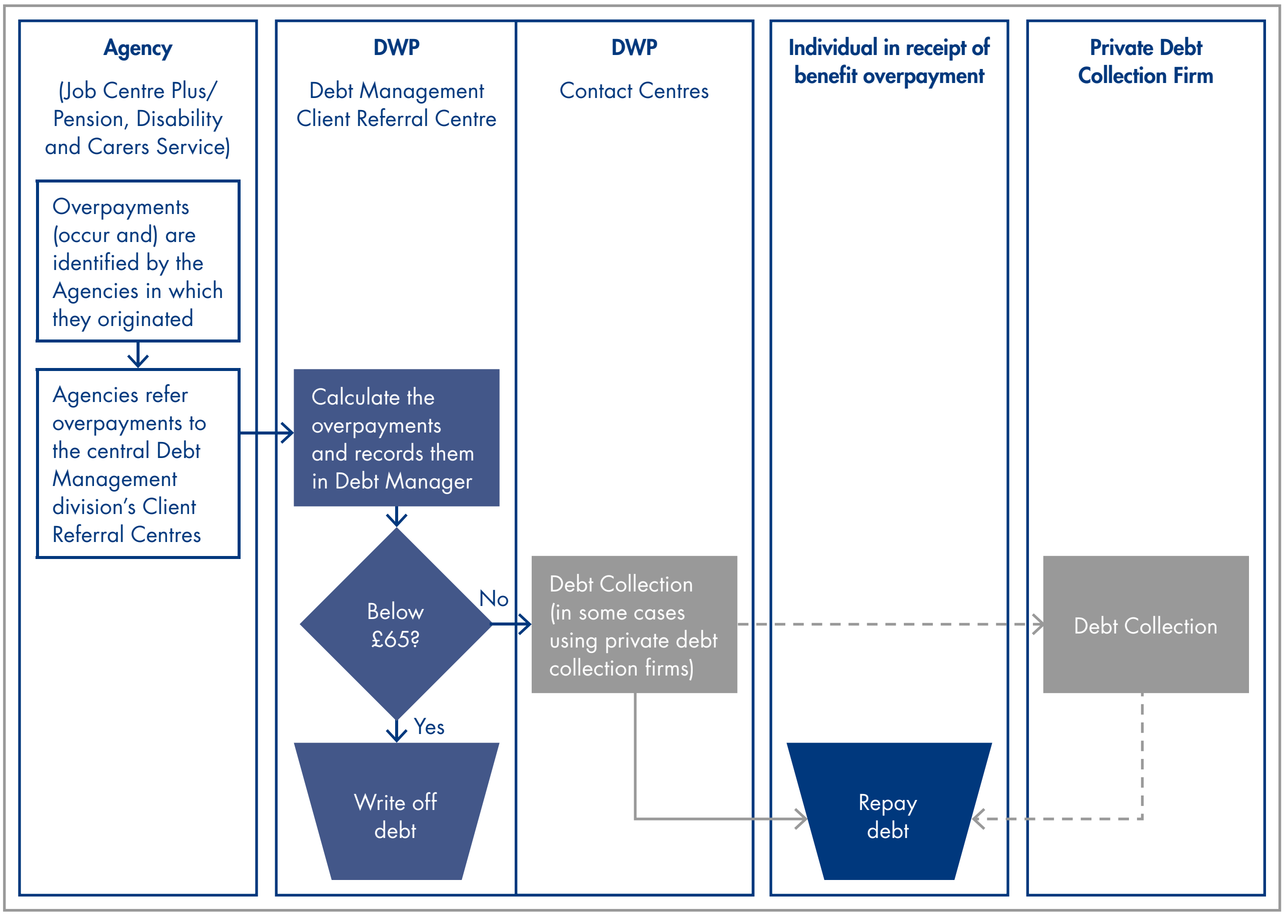
- providing assurance over the integrity of the databases used;
- identifying improvement suggestions for the way in which the Department uses management information to manage customer overpayment debts.

19 Interviews were held with key personnel from the Department's Debt Management team, based in Salford Quays. The contractor also performed detailed testing over the integrity of the Debt Manager and Business Objects databases and the reports provided to NAO.

APPENDIX TWO

The Department's Debt Management Process

17 High Level Debt Management Process



Source: National Audit Office

APPENDIX THREE

The Department's Value for Money Assessment of Historic Debt

18 The Department's Value for Money Assessment of Historic Debt

Benefit Sampled	Exercise	Sample	Results
State Pension	State Pension Credit customers who may have had an additional non-state pension that was not being taken into account.	19,000 cases through data matching – 428 cases examined.	Three un-referred debts worth £393. Cost of the exercise was £550,000.
Income Support and Incapacity Benefit	In-week benefit reductions i.e. when benefit reduced from one week to the previous week. This is when an overpayment is most likely to occur.	One week period in October 2006 – sample of 310 Income Support and 30 Incapacity Benefit items.	**Income Support** Fourteen recoverable un-referred overpayments worth £2,959 at cost of £1,646 for JCP, excluding post retrieval, downtime, overheads, supervision, Debt Management costs etc. **Incapacity Benefit** One recoverable un-referred overpayment of £105 at a cost of £1,363.

Source: National Audit Office analysis of Department for Work and Pensions data

APPENDIX FOUR

Committee of Public Accounts – Previous Recommendations

Fraud and error in benefit expenditure

Fourth Report of Session 2005-06 – Recommendations on Debt Management

The Department is introducing new arrangements for managing debt that in around two years should enable it to make substantial progress in identifying debt, maximising recovery and providing a satisfactory audit trail. The Department is spending £100 million on these new debt management arrangements and £2 million on pilot work with private sector debt collectors. The Department should extend this latter work if it can be shown that these collectors provide additional expertise in dealing with those debtors who may be difficult and time consuming to pursue.

The Department has recovered only £550 million of the estimated £9 billion overpaid in the last three years. Given the potential to recover more money for the Exchequer, the Department should give priority to increasing the rate at which debts are recognised and recorded, for example, by tightening local office procedures so that all benefit overpayments are identified at source.

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Management of Benefit Overpayment Debt

A report by the Comptroller and Auditor General

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