



National Audit Office

DEPARTMENT FOR WORK AND PENSIONS
Management of Benefit Overpayment Debt

LONDON: The Stationery Office
£14.35

Ordered by the
House of Commons
to be printed on 29 April 2009



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.