

Department for Work and Pensions:
Resource Accounts 2008-09

Report by the Comptroller and Auditor
General

Introduction

- 1 The resource accounts of the Department for Work and Pensions include net expenditure of £143.0 billion on benefits, employment programmes and their related administration costs, together with the assets and liabilities at the year end.
- 2 Under the Government Resources and Accounts Act 2000, I am required to give an opinion on whether, in all material respects:
 - i. The Department's resource accounts give a true and fair view of the state of the Department's affairs as at 31 March 2009 and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows for the year then ended; and
 - ii. Expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them (the "regularity" opinion).
- 3 In respect of the Department's 2008-09 accounts I have qualified the regularity aspect of my audit opinion due to the material level of fraud and error in benefit expenditure, other than State Pension, which has a low level of error. The Department's accounts, and those of predecessor Departments administering this expenditure, have received similar qualified opinions since 1988-89.
- 4 Legislation specifies entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. Where fraud and error result in over or underpayment of benefit to an individual who is either not entitled to that benefit or is paid at a rate which exceeds that specified in the legislation, the transaction is not in conformity with the governing legislation and is irregular.
- 5 Note 44 to the Department's resource accounts discloses the Department's best estimate of all such activity. As shown in Note 44, overpayments due to fraud and error in 2008-09 are estimated at £2.7billion (2007-08 – £2.7billion), which equates to 2.0% of total benefit expenditure of £135.9billion (2007-08 – 2.1% on expenditure of £126.1billion), representing a decrease in the percentage of benefits being overpaid. Total underpayments in 2008-09 are estimated at £1.2billion (2007-08 – £1.1billion), which equates to 0.9% of total benefit expenditure (2007-08 – 0.9%). Within those figures, the Department estimates that in 2008-09 fraud and error within State Pension

resulted in overpayments of £0.1 billion (0.2% of related expenditure) and underpayments of £0.2 billion (0.3% of related expenditure).

- 6 I have therefore qualified my opinion on the regularity of benefit expenditure, other than State Pension, because of the level of overpayments attributable to fraud and error which do not conform to Parliament's intention; and because the level of under and overpayments in such benefit expenditure which are not in conformity with the relevant authorities. This report provides further explanation of the reasons and context for my qualified audit opinion, by commenting on the key causes of fraud and error in the benefit system, together with the challenges faced by the Department and their actions to reduce it.
- 7 In addition, in 2007-08 I reported on progress made by the Department with regard to recovering some of the financial loss resulting from benefit overpayments through improvements in Debt Management referrals and recovery performance. This was significant in that it contributed to the removal of a longstanding limitation in the scope of my opinion on debt balances. I have presented an update on this issue in paragraphs 62 to 65 of this report.
- 8 The report will demonstrate that overall the Department faces significant challenges in administering a complex benefits system in a cost effective way. Some benefits, mainly those with means tested entitlement, are more inherently prone to error due to their complexity and to the difficulties in obtaining reliable information to support the claim. The Department has invested a considerable amount of effort and resource into trying to prevent, detect and correct these errors.
- 9 Note 44 to the Department's accounts describes its intention to gain a more detailed understanding of the risks of fraud and error and the impact of additional controls from a value for money perspective. The review, which will be undertaken in consultation with my staff, will aim to forensically investigate which activities best address the key causes of inaccuracy. For each benefit, and for each type of inaccuracy, they intend to further understand the level and key causes of fraud and error and the cost and impact of current control activities. The Department's view is that it is possible there is a natural level of inaccuracy below which it is either impossible or not cost-effective to reach, particularly in situations where evidence of benefit entitlement is not something that can be easily verified by the Department.

Benefit expenditure

Overview

- 10 Total expenditure on benefits in 2008-09 was some £135.9 billion, of which £114.5 billion was in respect of benefits paid directly by the Department and £21.4 billion in respect of benefits paid on the Department's behalf by Local Authorities, mainly Housing Benefit and Council Tax Benefit. Note 44 to the Department's resource accounts sets out expenditure by benefit type and the extent of fraud and error as estimated by the Department. The note also explains the extent of statistical uncertainty inherent in these estimates and the difficulty in identifying certain types of complex error or well concealed frauds, and that therefore some caution must be maintained when examining the estimates for trends. The estimate of fraud and error disclosed in the accounts is nevertheless the best measure currently available.
- 11 The Department estimates that overpayments relating to fraud and error have remained static at £2.7 billion over the past four years. The increase in overall expenditure on benefits over the four years means that overpayments as a percentage of benefit expenditure has reduced from 2.3% in 2005-06 to 2.0 % in 2008-09, which is the lowest rate achieved by the Department to date. The estimates separate the reported overpayments into three categories; official error, customer error and fraud, defined as follows:
- Official error arises where a benefit is paid incorrectly due to inaction, delay or a mistaken assessment by the Department, a Local Authority or Her Majesty's Revenue and Customs.
 - Customer error arises when the customer has provided inaccurate or incomplete information, or failed to report a relevant change in circumstances, but there is no fraudulent intent on the customer's part.
 - Fraud arises when incomplete or inaccurate information has been provided intentionally by the claimant in order to receive benefit.
- 12 Figure 1 shows the value and percentage of overpayments over the past 4 years.

Figure 1: Overpayments of benefit expenditure in the last four years

Year	Total benefit expenditure £ million	Due to Official error £ million	Due to Customer error £ million	Due to fraud £ million	Total £ million	Percentage of total benefit expenditure
2008-09	135,900	900	900	900	2,700	2.0
2007-08	126,100	1,000	900	800	2,700	2.1
2006-07*	119,800	900	1,000	800	2,700	2.2
2005-06**	115,800	900	1,000	800	2,700	2.3

Source: Department for Work and Pensions Resource Accounts, rounded to nearest £100m

** 2006-07 figures were re-stated subsequent to publication of the 2006-07 Resource Accounts.*

***Previous estimates included c. £600million in relation to overpayments of Disability Living Allowance which were due to gradual improvements in the medical status of claimants, so that the level of benefit in payment would no longer have been considered to be appropriate to the claimants' current status had it been reviewed. Those overpayments have been omitted from the above estimated overpayments because, unless a fresh assessment of the claimant's health is carried out, the existing level of benefit remains consistent with legal requirements.*

13 Within total benefit expenditure of £135.9 billion in 2008-09, State Pension accounts for £61.7 billion (45.4% of benefit expenditure). The Department has consistently reported lower levels of error in State Pension with £100 million of overpayments estimated in 2008-09, or under 0.2% by value of relevant expenditure. State Pension has relatively low measured rates of fraud and error, with official error being measured on a continual basis, and therefore as noted in paragraphs 5 and 6 of this report, it has been excluded from my qualification of the accounts. Excluding State Pension, the level of overpayment error for the remaining benefits in 2008-09 is 3.5%.

14 The Department also estimates that underpayment of benefits currently represents some £1.2 billion or 0.9 % of expenditure, an increase on 2007-08 due to the increase in expenditure, when estimated underpayments were £1.1 billion (0.9 % of related expenditure). Figure 2 shows the annual estimates of underpayments dating back to 2005-06. As with reported overpayments, excluding the relatively low level of error on State Pension, estimated to be 0.3%, the percentage of estimated underpayments during 2008-09 is 1.2% of related benefit expenditure.

Figure 2: Underpayments of benefit expenditure in the last four years

Year	Total benefit expenditure £ million	Due to Official error £ million	Due to Customer error £ million	Total £ million	Percentage of total benefit expenditure
2008-09*	135,900	500	700	1,200	0.9
2007-08*	126,100	400	600	1,100	0.9
2006-07	119,800	500	600	1,000	0.9
2005-06	115,800	400	500	900	0.8

Source: Department for Work and Pensions Resource Accounts rounded to nearest £100m. Amounts may not sum due to roundings.

**State Pension has been included for comparative purposes, acknowledging that in 2007-08 and 2008-09 the audit opinion has not been qualified in respect of fraud and error relating to this benefit*

15 The benefits system is highly complex, encompassing over 27 benefits each with differing statutory requirements and administrative arrangements, and involving a total caseload of around 19 million people. Each of these usually involves multiple individual payments, which means hundreds of millions of actual transactions during 2008-09. Performance in administering benefits can vary significantly across benefits and the causes of error are often specific to the benefit and to the type of information and evidence which the Department is required to gather. Some benefits are more easy to administer correctly than others. For State Pension, for example, the principal requirements are that claimants should be of State Pension age and have made the requisite National Insurance contributions, and their relatively straightforward nature is reflected in lower error rates. Other benefits are more complex and more prone to fraud and error. Means tested benefits such as Jobseeker's Allowance or Income Support, for example, require the Department to consider a range of income and expenditure information for each claimant to establish eligibility to, and the value of, the benefit which may also be subject to numerous changes over time as the claimant's circumstances change.

16 As noted in paragraph 10, Housing Benefit and Council Tax Benefit are administered directly by Local Authorities rather than by the Department. These two benefits represent £21.4 billion of total expenditure in 2008-09 (£19.8 billion in 2007-08), with estimated overpayments of £940 million, or 4.4% of related expenditure in 2008-09 (£920 million, or 4.6% of related expenditure in 2007-08) and underpayments of £270 million, or 1.3% of related expenditure in 2008-09 (£270 million, or 1.4% of related expenditure in 2007-08), which are included in the totals above. These

benefits often have close links with benefits administered directly by the Department, as entitlement to a means tested benefit can qualify the claimant to make a Housing or Council Tax Benefit claim. Certain types of fraud and error will arise as a result of failures in the administration of Local Authorities rather than the Department directly, but there is the additional risk that fraud and error can arise due to communications between the Department and the Local Authorities not working effectively.

- 17 Some parts of the benefits system are, by design, targeted at those most in need of assistance in society, many of whom may not find it easy to supply the personal data required. The Department's staff often have to make complex judgements based on information provided by the claimant and often within tight timescales so as not to cause undue hardship, whilst at the same time claimants may struggle to provide information accurately due to complex personal circumstances, learning or literacy difficulties. These factors further contribute to the risk of fraud and error in the benefits system.
- 18 The following paragraphs of this report comment on the wide variety of fraud and error which commonly arise within the Department's three main error categories of customer error, official error and fraud. Reducing official error may depend on providing adequate staff training, enforcing adherence to internal procedures and correcting inadequate system interfaces. For customer error and fraud, the Department has to distinguish between those making a fraudulent misrepresentation of key facts supporting a claim and a genuine claimant who may be unable to understand the detailed requirements for making an accurate claim.
- 19 To tackle these challenges the Department employs a mixture of local and centrally led initiatives, targeted at individual benefits and at Agency and Departmental level.

Benefit fraud and error by type

Official error

20 The Department's 2008-09 estimate of official error (defined in paragraph 11) is broken down in Figure 3 below.

Figure 3: Summary of official error by benefit 2008-09

Benefit	2008-09 Total expenditure * £ million (% of total)	2008-09 Official error overpayments ** £ million (% of related expenditure)	2008-09 Official error underpayments ** £ million (% of related expenditure)	2007-08 Official error overpayments ** £ million (% of related expenditure)	2007-08 Official error underpayments ** £ million (% of related expenditure)
State Retirement Pension	61,700 (45.4)	50 (0.1)	190 (0.3)	70 (0.1)	90 (0.2)
Housing Benefit	17,200 (12.7)	150 (0.9)	50 (0.3)	210 (1.3)	70 (0.5)
Disability Living Allowance	10,600 (7.8)	80 (0.8)	10 (0.1)	80 (0.8)	10 (0.1)
Income Support	8,900 (6.5)	120 (1.4)	60 (0.6)	140 (1.5)	70 (0.8)
State Pension Credit	7,800 (5.7)	170 (2.1)	80 (1.0)	180 (2.5)	100 (1.4)
Incapacity Benefit	6,600 (4.9)	90 (1.3)	40 (0.6)	90 (1.3)	40 (0.5)
Council Tax Benefit	4,200 (3.1)	30 (0.8)	10 (0.3)	50 (1.1)	30 (0.7)
Jobseeker's Allowance	2,900 (2.1)	60 (1.9)	10 (0.2)	40 (1.7)	10 (0.3)
Carer's Allowance	1,400 (1.0)	10 (0.6)	0 (0)	10 (0.6)	0 (0)
Other***	14,600 (10.8)	100 (0.7)	40 (0.3)	90 (0.7)	20 (0.2)
Instrument of payment / inter dependencies ****	0 (0)	20	0	20	0
Total*	135,900	900	500	1000	400

Source: Department of Work and Pensions Resource Accounts, Fraud and Error in the Benefit System October 2007 to September 2008 (for the 2008-09 estimates, Fraud and Error in the Benefit System October 2006 to October 2007 (for the 2007-08 estimates).

* Rounded to the nearest £100 million

**Rounded to the nearest £10 million

*** Other benefits comprise Winter Fuel Payments, Statutory Maternity Pay, Attendance Allowance, Severe Disablement Allowance, Industrial Injuries Disablement Benefit, Bereavement Allowance, Over 75 TV Licence, Social Fund, Independent Living Fund, Maternity Allowance, Christmas Bonus, New Deal, Statutory Sick Pay, Job Grant, Employment and Support Allowance, in Work Credit, Vaccine Damage Payments.

**** Instrument of payment errors can relate to all benefits. Interdependency errors arise as a result of the 'knock-on' effects of DLA overpayments on other income-related benefits.

- 21 The highest levels of official error, when expressed as a percentage of related benefit expenditure, are State Pension Credit (2.1%), Jobseeker's Allowance (1.9%) and Income Support (1.4%). Housing Benefit has the second highest value of official error after State Pension Credit, at 0.9% of related expenditure. The combined benefit expenditure of these four benefits is £36.8 billion (27.1% of the total). Between them, these four benefits contributed £500m of the total official error overpayment estimate of £0.9 billion and £200 million, or approximately 40% of the total estimated official underpayment error of £0.5 billion. This outcome represents an improvement from 2007-08, when the four benefits contributed £570 million of total overpayments of £1.0 billion and £250 million of the estimated £0.4 billion of underpayments.
- 22 All these benefits are to some extent means-tested, with the claimant's entitlement being dependent, among other things, upon their declared income, their personal capital, their household living arrangements, or a combination of these factors. The greater the data requirements to establish entitlement, the higher the inherent risk of an official error being made.
- 23 Additionally, for means tested benefits, calculations of earnings and capital and establishing living circumstances are not always straightforward, for example, establishing an income level can be complex when a claimant's earnings are variable, such as during periods of self employment, leading to some estimation by officials, which increases the risk of error. These circumstances are also liable to change over the course of a claim, requiring the claimant to update his / her details and officials to process the changes. The greater the volume of transactions, the higher the level of official input and the greater the inherent risk of official error.
- 24 Within State Pension Credit, Income Support and Jobseeker's Allowance, the top 5 overpayment errors amount to about £280 million (over 80%) of the total estimated official error of £350 million in those benefits. They are shown in Figure 4 and are described in paragraphs 25 to 29 below. Underpayments will generally arise as a result of similar errors, omissions and miscalculations as overpayments.

Figure 4: Summary of common official overpayment error types

Official Error	Total Overpayments £millions (% of related benefit error)	Income Support Overpayments £millions (% of IS error)	Jobseeker's Allowance Overpayments £millions (% of JSA error)	State Pension Credit Overpayments £millions (% of SPC error)
Income and other benefits	90 (25.7)	30 (25.0)	10 (16.7)	50 (29.4)
Premiums / additional amounts	80 (23.9)	30 (25.0)	0 (0.0)	50 (29.4)
Conditions of entitlement	50 (14.3)	40 (33.3)	0 (0.0)	10 (5.9)
Retirement income provision	30 (8.6)	n/a	n/a	30 (17.6)
Capital	30 (8.6)	10 (8.3)	0 (0.0)	20 (11.8)
Total	280 (80.0)	110 (91.7)	10 (16.7)	160 (94.1)

Source: Department of Work and Pensions Estimate: Fraud and Error in the Benefit System October 2007 to September 2008. Amounts rounded to the nearest £10 million and may not sum due to rounding.

- 25 **Income and other benefits:** errors by the Department in recording the correct amount of income when calculating a benefit claim by recording data incorrectly from an application form or from a telephone claim. This situation may arise because of inadequate, or no, interfaces between benefit systems where the claimant's income is affected by other benefit payments he or she receives, or mistakes by the official such as arithmetic or transcription errors.
- 26 **Premiums / additional amounts:** errors in calculating an additional element of the benefit payment, such as severe disability premiums on either State Pension Credit or Income Support. These are non-standard payments and additional criteria may apply which need to be satisfied before the benefit can be awarded. For severe disability premium, one of the entitlement conditions is that the claimant or their partner must qualify for another disability related benefit at the correct rate. Some of the information necessary to correctly calculate the benefit relates to other benefit information already held by the Department (although held on different IT systems) so the quality of the Department's systems interfaces can contribute to the level of error.
- 27 **Conditions of entitlement:** errors arising from incorrect consideration by the relevant Departmental official of a fundamental entitlement to a benefit, for example, the claimant no longer being treated as a single parent or no longer being unfit for work.

- 28 **Retirement income provision:** errors arising on State Pension Credit only, where the official fails to correctly record the amount of retirement income held by the claimant, such as through a data entry error or failing to correctly transcribe data regarding occupational pensions. The error can also occur when setting the claimant's Assessed Income Period, which is the period of time that should elapse between an award being made and the claim being revisited to check facts such as the claimant's income.
- 29 **Capital:** errors arising on all means tested benefits where the claimant's entitlement is dependent on the amount of capital they hold and the related income from it (such as savings income or dividend income). The claimant may declare all relevant capital, including bank accounts, savings, stocks and property, but the official may either make a clerical error or treat capital elements wrongly for the purposes of calculating relevant income.

Housing Benefit

- 30 Housing Benefit is administered by the claimant's relevant Local Authority, and entitlement to the benefit can be established by the claimant being in receipt of an income related benefit, such as Jobseeker's Allowance or Income Support. Common official errors arise from poor or non-timely interfaces between the Department and the Local Authority with regard to whether the claimant is in receipt, or entitled to, a qualifying benefit. The Department estimates that approximately £30 million of Housing Benefit official error overpayments relate to "passported" errors of this type. In practice, given the non-integrated nature of the Department's systems with that of all Local Authorities, many such errors will be difficult to eliminate; changes in customer circumstances will directly affect benefit entitlement and any delays in passing on information can lead to errors in payments.
- 31 Housing Benefit is paid to cover all or part of a claimant's housing costs. Errors in recording the correct qualifying housing costs are another common reason for official errors in Housing Benefit. As a means tested benefit requiring the establishment of income, capital and living circumstances, other error types are similar to those discussed in paragraphs 25 to 29 and the errors are made for similar reasons.

Addressing official error in the benefit system

- 32 In January 2006, the Department established an Official Error Task Force aimed at supporting a demonstrable reduction in benefit complexity and, by implication, official error rates. Building on this initiative, in January 2007 the Department published *“Getting Welfare Right: Tackling Error in the Benefit System”*, a strategy designed to achieve £1.0 billion of savings from overpayments by 2012, but also focussing on reducing errors resulting in underpayments. The current year reduction in official error as a percentage of benefit spend may reflect some successes of this strategy.
- 33 Central estimates of fraud and error give a broad indication of where the majority of errors are occurring, but they do not currently provide a root cause analysis of specific official mistakes or suggest how they might be addressed. Official error is therefore also addressed at a more local level by various Agency specific internal validation programmes which check samples of benefit payments to ensure the accuracy of benefit awards and to create action plans to address areas of weakness.
- 34 For Housing Benefit, the funding arrangement between the Department and Local Authorities contains a formula intended to encourage accurate payments by the Authority by affecting the amounts refunded to the Authority. The Department has also established a performance management regime to encourage Local Authorities to adopt best practice in the administration of Housing Benefit, including an output based performance measure which sets each Local Authority a target for identifying reductions in benefits overpaid and to prevent overpayments due to customer error entering the system.
- 35 In 2009-10, I plan to report on the Department’s effectiveness in addressing official error in a Value for Money study. The report will focus on Income Support, Jobseeker’s Allowance and State Pension Credit, the three income related benefits which currently have the highest rates of reported official error as a proportion of related benefit spend.

Customer error

36 The Department's estimate of customer error, as defined in paragraph 11, is shown in Figure 5 below, broken down by benefit.

Figure 5: Summary of customer error by benefit 2008-09

Benefit	2008-09 Total expenditure £ million * (% of total)	2008-09 Customer error overpayments £ million ** (% of related expenditure)	2008-09 Customer error underpayments £ million ** (% of related expenditure)	2007-08 Customer error overpayments £ million ** (% of related expenditure)	2007-08 Customer error underpayments £ million ** (% of related expenditure)
State Retirement Pension	61,700 (45.4)	50 (0.1)	0 (0)	50 (0.1)	0 (0)
Housing Benefit	17,200 (12.7)	410 (2.4)	180 (1.0)	400 (2.6)	140 (0.9)
Disability Living Allowance	10,600 (7.8)	70 (0.6)	250 (2.4)	60 (0.6)	240 (2.4)
Income Support	8,900 (6.5)	100 (1.1)	50 (0.5)	80 (0.9)	50 (0.5)
State Pension Credit	7,800 (5.7)	100 (1.3)	30 (0.4)	100 (1.3)	20 (0.3)
Incapacity Benefit	6,600 (4.9)	20 (0.2)	10 (0.2)	20 (0.2)	10 (0.2)
Council Tax Benefit	4,200 (3.1)	90 (2.1)	40 (0.9)	90 (2.3)	30 (0.7)
Jobseeker's Allowance	2,900 (2.1)	10 (0.3)	0 (0.1)	10 (0.3)	0 (0.1)
Carer's Allowance	1,400 (1.0)	10 (1.0)	0 (0.1)	10 (1.0)	0 (0.1)
Other ***	14,600 (10.8)	70 (0.5)	150 (1.0)	60 (0.5)	150 (1.2)
Instrument of payment / inter dependencies ****	0 (0)	10	0	10	0
Total *	135,900	900	700	900	600

Source: Department of Work and Pensions Resource Accounts, *Fraud and Error in the Benefit System* October 2007 to September 2008 (for the 2008-09 estimates, *Fraud and Error in the Benefit System* October 2006 to October 2007 (for the 2007-08 estimates).

* Rounded to the nearest £100 million

**Rounded to the nearest £10 million

*** Other benefits comprise: Winter Fuel Payments, Statutory Maternity Pay, Attendance Allowance, Severe Disablement Allowance, Industrial Injuries Disablement Benefit, Bereavement Allowance, Over 75 TV Licence, Social Fund, Independent Living Fund, Maternity Allowance, Christmas Bonus, New Deal, Statutory Sick Pay, Job Grant, Employment and Support Allowance, in Work Credit, Vaccine Damage Payments.

**** *Instrument of payment errors can relate to all benefits. Interdependency errors arise as a result of the 'knock-on' effects of DLA overpayments on other income-related benefits.*

- 37 The highest levels of claimant overpayment error when expressed as a percentage of related benefit expenditure are Housing Benefit (2.4%), Council Tax Benefit (2.1%) State Pension Credit (1.3%) and Income Support (1.1%), with combined benefit expenditure of £38.1 billion (28.0% of the total). Between them, these four benefits contributed £700 million towards the total claimant overpayment error estimate of £0.9 billion and £300 million of the total estimated claimant underpayment error of £0.7 billion. This outcome is broadly consistent with 2007-08, when these four benefits contributed £670 million of total customer error overpayments of £0.9 billion and £240 million of the estimated £0.6 billion of customer error underpayments. The largest individual underpayment estimate is for Disability Living Allowance, with an estimate of £250 million (2.4% of benefit value) being underpaid as a result of claimant error.
- 38 As with official error, the benefits with the highest claimant error overpayment rates have entitlement conditions that relate to, among other things, the claimant's income, their personal capital, their household living arrangements, or a combination of those factors. Errors will arise as a result of the claimant failing to provide relevant details to the Department fully or accurately, but where there has been no suspected fraudulent intent on the part of the claimant leading to an overpayment. Typically, this will relate to third party information to which the Department does not already have access, such as occupational pension details or bank balances, and it is therefore reliant on receiving accurate claimant information, such that the same error types are also liable to give rise to underpayments as overpayments.
- 39 For benefits administered directly by the Department (State Pension Credit, Income Support), claimant overpayment error is estimated at £200 million. The five most commonly identified overpayment error types constitute approximately £170 million of that total as shown in Figure 6 below and are further explained in paragraphs 40 to 44.

Figure 6: Summary of common customer error types

Customer Error	Total Overpayments £millions (% of related benefit error)	Income Support Overpayments £millions (% of IS error)	State Pension Credit Overpayments £millions (% of SPC error)
Benefits	60 (30.0)	30 (30.0)	30 (30.0)
Income	40 (20.0)	10 (10.0)	30 (30.0)
Capital	40 (20.0)	10 (10.0)	30 (30.0)
Earnings	20 (10.0)	10 (10.0)	10 (10.0)
Dependants	10 (5.0)	10 (10.0)	0 (0.0)
Total	170 (85.0)	70 (70.0)	100 (100.0)

Source: Department of Work and Pensions Estimate: Fraud and Error in the Benefit System October 2007 to September 2008. Amounts rounded to the nearest £10 million and may not sum due to rounding.

- 40 **Benefits:** errors where the claimant is receiving other benefits or premiums on benefits, which they unintentionally fail to declare fully or accurately. As not all of the Department's benefit systems interface directly on a real-time basis, if a claimant has not accurately declared other benefits which they receive to the correct Departmental official, it will affect the subsequent calculation of relevant income and therefore the amount of means tested benefit to which they are entitled.
- 41 **Income:** errors where the claimant fails to accurately or fully disclose relevant non-earnings related income which they receive and which would affect their benefit entitlement. This can arise because the claimant may not realise that certain types of income are relevant to the assessment, or may not be able to provide an accurate figure due to frequently changing levels of income. For State Pension Credit, one common mistake is for the claimant to fail to declare the full value of an occupational pension which they receive, or fail to notify the Department in the correct timescale if that occupational pension payment has been up-rated, and therefore the relevant income may have increased since the initial assessment.
- 42 **Capital:** as with income, the claimant fails to fully or accurately declare all capital that they hold and which would be relevant to the benefit assessment. Current verification procedures require claimants to provide bank statements to verify capital over certain thresholds. Where a claimant does not realise that certain asset types count as capital, or where bank accounts may be overlooked and information not provided, errors in the benefit calculations will arise.

- 43 **Earnings:** the claimant fails to fully or accurately provide the Department with information on earnings from employment. This may be because earnings fluctuate over time, for example, and a reasonable estimate is not able to be provided when the benefit assessment is made. Claimants are required to notify the Department where their circumstances change, but this might not be done in a timely manner to enable benefit payments to be altered.
- 44 **Dependants:** the claimant incorrectly claims the wrong number or type of dependants, for example, the household might change with personal circumstances as the relevant adults and dependants change. As with earnings, the claimant may not notify the Department in a timely fashion.
- 45 Disability Living Allowance has a relatively high estimate of claimant underpayment error, with the most recent estimate for 2008-09 being £250 million (2.4%). This benefit is only periodically reviewed for fraud and error, with the last review dating from April 2004 – March 2005. These estimates may not reflect fully the Department's most recent actions to prevent fraud and error in this benefit, nor is there data available to break down the current estimate of underpayments further by error code. Disability Living Allowance is dependent on a claimant's ongoing medical condition, which can often be complicated and subject to changes over time, which can make it difficult for the claimant to provide all the required information to process a claim correctly.

Housing Benefit and Council Tax Benefit

- 46 Housing Benefit and Council Tax benefit are administered by Local Authorities and contribute a combined £500 million of the estimated £900 million of claimant overpayment errors. These benefit claims are often closely related. A Housing Benefit claim can have a linked Council Tax Benefit claim and therefore claimant error types are common to both. As discussed in paragraph 30, errors can be passported into these benefits as a result of communication failures between the Department and Local Authorities. Similarly, there is a linked risk in that a claimant whose circumstances change and who is required to inform the Department of these changes is also required to notify the relevant Local Authority of the change. This requirement to inform both the Department and the Local Authority will increase the risk of error as it increases the number of contacts with the Department.
- 47 Failures to correctly disclose relevant details of earnings and income can have similar causes and impacts as for income related benefits. There are additional risks within Housing Benefit and Council Tax Benefit as the benefit is paid on a specific property.

Claimant changes of address, or in the status of other contributing members of the household, will have an impact on the benefit receivable. Changing addresses affects benefit entitlement, as well as the amount of benefit received because of changing rental and housing costs. Where the claimant moves between districts, this will also mean that they may need to communicate effectively with more than one Local Authority, which, again, increases the risk of errors being made or changes in circumstance not being communicated effectively.

Addressing customer error in the benefit system

48 The Department is addressing customer error by simplifying benefits where possible and in 2005 the Benefit Simplification Unit was established as a result of a recommendation of our Value for Money Report “*Dealing with the complexity of the benefits system*”. For Pension Credit, for example, to simplify the process and try to improve take-up rates, the Department has reduced the amount of evidence which a claimant needs to produce in support of a claim. The Department also aims to assist customers through establishing single points of contact covering several benefits. Jobcentre Plus acts as a gateway for applications for a wide range of benefits, many of which are administered by other Agencies within the Department. The Department has also rationalised the literature provided to claimants to assist them in understanding whether they are eligible for specific benefits and, if so, their entitlements and the evidence they will be required to provide. I reported on the Department’s progress on communications in my recent Value for Money report “*DWP: Communicating with customers*”.

49 There will be instances where the customer provides information to make a claim in good faith, but that information turns out subsequently to be incorrect. There are practical limits on the scope of the Department’s preventative and detective controls which need to be cost effective, enable timely payments to be made where appropriate and minimise unnecessary intrusion into claimants’ lives. The Department re-evaluates where the balance of cost and control rests and whether systems are designed to maximise the likelihood that a benefit payment will be correct whilst minimising the administrative costs. In doing so the Department needs to consider whether:

- the systems of control surrounding benefit delivery are designed to cost effectively optimise the accurate delivery of benefits to customers;
- systems are operating as intended and with appropriate evidence gathered and verified to minimise error; and

- an effective management information and measurement regime and feedback loop is in place to identify areas for further work, to demonstrate continuous improvement and to enable systems to adapt to changing circumstances.

Fraud

50 The Department's estimate of fraud, as defined in paragraph 11, is shown in Figure 7 below, broken down by benefit.

Figure 7: Summary of fraud by benefit 2008-09

Benefit	2008-09 Total expenditure £ million * (% of total)	2008-09 Fraud overpayments £ million ** (% of related expenditure)	2007-08 Fraud overpayments £ million ** (% of related expenditure)
State Retirement Pension	61,700 (45.4)	0 (0.0)	0 (0.0)
Housing Benefit	17,200 (12.6)	210 (1.2)	140 (0.9)
Disability Living Allowance	10,600 (7.7)	50 (0.5)	50 (0.5)
Income Support	8,900 (6.6)	220 (2.5)	260 (2.9)
State Pension Credit	7,800 (5.8)	90 (1.1)	110 (1.5)
Incapacity Benefit	6,600 (4.9)	10 (0.1)	10 (0.1)
Council Tax Benefit	4,200 (3.1)	40 (1.0)	30 (0.8)
Jobseeker's Allowance	2,900 (2.1)	80 (2.9)	70 (3.0)
Carer's Allowance	1,400 (1.0)	50 (3.9)	50 (3.9)
Other ***	14,600 (10.8)	90 (0.6)	80 (0.6)
Instrument of payment and interdependencies ****	0 (0.0)	20	20
Total *	135,900	900	800

Source: Department of Work and Pensions Resource Accounts, *Fraud and Error in the Benefit System* October 2007 to September 2008 (for the 2008-09 estimates, *Fraud and Error in the Benefit System* October 2006 to October 2007 (for the 2007-08 estimates).

* Rounded to the nearest £100m

**Rounded to the nearest £10m

*** Other benefits comprise: Winter Fuel Payments, Statutory Maternity Pay, Attendance Allowance, Severe Disablement Allowance, Industrial Injuries Disablement Benefit, Bereavement Allowance, Over 75 TV Licence, Social Fund, Independent Living Fund, Maternity Allowance, Christmas Bonus, New Deal, Statutory Sick Pay, Job Grant, Employment and Support Allowance, in Work Credit, Vaccine Damage Payments.

**** Instrument of payment errors can relate to all benefits. Interdependency errors arise as a result of the 'knock-on' effects of DLA overpayments on other income-related benefits.

- 51 The highest levels of fraudulent overpayments when expressed as a percentage of related benefit expenditure are Carer's Allowance (3.9%), Jobseeker's Allowance (2.9%), Income Support (2.5%), Housing Benefit (1.2%) and State Pension Credit (1.1%), with combined benefit expenditure of £38.2billion (28.1% of the total). Between them, these five benefits contributed £650 million towards the total claimant fraud estimate of £0.9 billion. This is broadly consistent with 2007-08 when these five benefits contributed £630 million of total overpayments of £0.8 billion.
- 52 Carer's Allowance experiences the largest amount of fraud when expressed as a percentage of related benefit expenditure at 3.9%. The ability to claim is linked to receipt of Disability Living Allowance by the cared for person. Fraudulent activity within Disability Living Allowance impacts the level of fraud in Carer's Allowance. For fraud and error measurement purposes, Carer's Allowance is a periodically reviewed benefit and the data upon which the current estimate of fraud and error is based was gathered in the period April 1996 to March 1997. Due to the relatively low value of benefit expenditure, the Department has not deemed it cost effective to update this estimate and the estimates made will not reflect any improvements in controls made since the exercise of 1996-97.
- 53 State Pension Credit, Jobseeker's Allowance and Income Support are all directly administered by the Department and, as means tested benefits, have similar fraud risks. There is a link to customer error, as both involve the claimant supplying inaccurate or incomplete information. Establishing whether the claimant has made the error with fraudulent intent or not is often difficult to establish. The five largest fraudulent error classifications consist of £290 million (74.4%) of the total reported fraud related overpayments of £390 million on these three benefits. They are shown in Figure 8 below and described in paragraphs 54 to 58.

Figure 8: Summary of common fraud types

Fraud	Total Overpayments £millions (% of related benefit fraud)	Income Support Overpayments £millions (% of IS fraud)	Jobseeker's Allowance Overpayments £millions (% of JSA fraud)	State Pension Credit Overpayments £millions (% of SPC fraud)
Earnings	70 (17.9)	30 (13.6)	40 (50.0)	0 (0.0)
Living together	90 (23.0)	70 (31.8)	10 (12.5)	10 (1.1)
Address	70 (17.9)	40 (18.2)	10 (12.5)	20 (22.2)
Abroad	50 (12.8)	20 (9.1)	0 (0.0)	30 (33.3)

Benefits	10 (2.6)	10 (4.5)	0 (0.0)	0 (0.0)
Total	290 (74.4)	170 (77.3)	60 (75.0)	60 (66.6)

Source: Department of Work and Pensions Estimate: Fraud and Error in the Benefit System October 2007 to September 2008. Amounts rounded to the nearest £10m and may not sum due to rounding.

- 54 **Living Together as Husband and Wife / Civil Partners:** the customer has a partner, but is claiming and therefore receiving benefit as a single person in the knowledge that this will increase the benefit award.
- 55 **Earnings:** the customer claims benefit but fraudulently fails to declare some or all of their earnings, either from paid employment or the grey economy. As with claimant error cases, in certain cases earnings can be difficult to estimate, but especially where grey earnings are in cash or would in any case bypass Her Majesty's Revenue and Customs.
- 56 **Address:** in these instances, the claimant cannot be contacted at their registered address or may have provided a false address in order to claim benefit.
- 57 **Abroad:** the customer continues to receive benefit to which they are no longer entitled whilst living abroad; monies will continue to be paid into the relevant bank account to be drawn on by the fraudster.
- 58 **Capital:** the customer conceals or understates the amount of capital that they hold in order to claim benefits or claim at a higher rate. As with claimant error cases, the Department does not hold independent corroborative data to verify capital or to challenge deliberate concealment.

Housing Benefit

- 59 For Housing Benefit, as with customer error, there is a risk that fraudulent benefit claims or false statements made in the course of applying for benefit, are passported into the Local Authority to form the basis for a linked fraudulent Housing Benefit claim. The risks are similar to other means tested benefits and include the claimant potentially falsely understating their income, earnings, capital, living together status and partner's earnings. Housing Benefit errors can arise from claimants falsely declaring their housing costs or falsely declaring or failing to declare any income from housing, for example, from sub-tenants.

Addressing fraud in the benefit system

- 60 The Department has a number of initiatives relating to fraud. In our recent report¹ on progress in tackling benefit fraud we drew attention to initiatives to combat fraud including advertising campaigns, fraud investigation procedures, customer compliance, data-matching and fraud prosecutions.
- 61 The Department attempts to reduce fraud levels by a range of initiatives, including raising awareness amongst the general public through initiatives and publicity such as:
- National Benefit Fraud Hotline and website www.targetingfraud.co.uk – these initiatives allow members of the public to report suspected cases of benefit fraud to DWP for investigation.
 - Targeting Benefit Thieves Campaign – there is a national TV and radio advertising campaign to reinforce public attitudes and make benefit fraud more socially unacceptable. The campaign aims to raise awareness of benefit fraud as a crime, the routes for reporting benefit fraud and the consequences of committing benefit fraud which include prosecution and penalties. In the last year, the Department has also introduced a benefit fraud hotline in Spain to further reduce abroad fraud.

Referral of debts arising from benefit overpayments

- 62 From 1999-2000 to 2006-07 my predecessor's audit opinion was qualified because of material uncertainties over the completeness of debtors arising from overpayments of benefits. Debt arises where payments of benefits have been made to those not entitled to them. The Department cannot identify all benefit overpayments since it cannot know how many overpayments it has made arising from changes of customers' circumstances of which it has not been informed. Where the Department has been informed, in the normal course of business, of a change in circumstance that has led to an overpayment, the debt recorded in the Department's accounts will be incomplete unless this is referred by the relevant Agency to the Department for recording and recovery.
- 63 For 2007-08, the Department obtained agreement from Treasury to no longer actively pursue all customer debts predating 1 April 2007 other than those identified 'in the normal course of business' on the grounds that it would not represent value for money to review all cases where an overpayment might have been made. The Departmental

¹ Department for Work and Pensions – Progress in tackling benefit fraud (HC 102 2007-08)

accounting policy was also amended to recognise debt identified ‘in the normal course of business’ and this policy has received Treasury approval. At 31 March 2008, the debt omitted from the accounts which the Department should have identified and recorded in the normal course of business, related to one financial year only. The estimated value of this omission was not material and so the qualification was lifted.

- 64 My estimate of the level of accumulated unrecorded debt at 31 March 2009 is not material and indicates that the recorded debtor balance in these financial statements remains true and fair. However, my work to estimate omitted debt arising since 1 April 2007 which should have been identified ‘in the normal course of business’ indicates a deteriorating position from the previous year. Significant weaknesses remain in the systems for identifying debts in the normal course of business and until these weaknesses are addressed the level of estimated unrecorded debt will continue to grow. The inherent uncertainty in the estimates of these unrecorded balances means that, unless the system is fixed, over time it will prove more difficult for the Department to demonstrate that there is no material omission in debtors.
- 65 The Department has informed me that it is replacing the current clerical method of referring overpayments with an electronic method of referral by 2010. This initiative will create an electronically enabled referral form, which interacts with Customer Information System and Heritage Benefit Systems, to be used between the DWP Businesses and Debt Management. When implemented, this should support the strategies for earliest notifications of overpayments, improve accuracy, value for money and data security. I welcome this development and my staff will continue to monitor progress in this area.

Conclusion on fraud and error

- 66 The Department faces significant challenges in administering a complex benefits system in a cost effective way. Some benefits, mainly those with means tested entitlement, are prone to error due to their complexity and the difficulties in obtaining reliable evidence from customers, for example, the completeness of income and capital. The Department has developed a number of initiatives to tackle fraud and error and to bring such rates down. The estimated amount of fraud and error overpayments in the benefits system on 2008-09 was £2.7 billion, the same value as

2007-08 and 2005-06, but decrease of 0.3% of overpayments as a percentage of total benefit expenditure over the past 3 years (2.0% in 2008-09; 2.3% in 2005-06).

- 67 The current economic downturn has increased the Department's workload on income related benefit claims in particular. In response, Jobcentre Plus, which administers such benefits, has increased front line staff by reassigning staff within the Agency and the Department from other responsibilities. Due to the increase in new staff in post and the increased workload, these pressures present a risk that fraud and error will increase and the Department remains alert to the need to manage payment accuracy as a priority.
- 68 The complexity of the benefits system means that it will always be prone to fraud and error, and customer error in particular is more difficult for the Department to control. It is required to decide on the balance of probabilities that a claimant is entitled to benefit but not to establish entitlement beyond reasonable doubt and therefore will sometimes make payments which subsequently turn out to be incorrect. Equally, it should not give the claimant the benefit of the doubt. My staff are currently working with the Department to determine if it is practical to distinguish the amount of customer error which is outside cost effective control from that which the Department could reasonably be expected to control. Such an approach should help the Department in focusing efforts to reduce customer error on areas where robust and cost effective solutions may exist.
- 69 Where overpayments do occur, the Department has a responsibility to identify those instances and initiate effective actions to recover them. As described in paragraphs 62 to 65, these actions need to be further embedded into the normal course of the Department's business in order to prevent any further deterioration in the unrecorded debt position. To the extent that debt is identified and referred for recovery, the rate of recovery has continued to improve in 2008-09 despite the increased challenges on staff resources brought about by the effects of the economic downturn.