

National Audit Office

Report of the Comptroller and Auditor General

Appropriation Accounts 1998-99
Volume 12: Class XII
Department of Social Security

Confidential

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Executive summary

Introduction

1 The Benefits Agency (the Agency), an executive agency of the Department of Social Security (the Department), administer a wide range of social security benefits, including Income Support, Jobseeker's Allowance, Child Benefit, Family Credit and a number of benefits for the disabled. The Agency account for expenditure on these benefits in the appropriation account for Class XII, Vote 1. In 1998-99 over £37 billion of gross expenditure was charged to this account.

2 This report records the results of my audit examination of this account. I have qualified this account in each of the last eleven years for a variety of reasons, primarily errors in awards of Income Support and other benefits (in each year since the introduction of Income Support in 1988-89) and the level of benefit fraud (in each year since 1994-95).

3 The Committee of Public Accounts have also examined the Department and Agency at regular intervals on this account and my reports, most recently in their 3rd Report of Session 1999-2000, published in January 2000.

4 My report covers:

- Expenditure compared with grant (Part 1)
- Accuracy of benefit awards and benefit overpayments (Part 2)
- Benefit Fraud (Part 3)
- New initiatives to tackle fraud and error (Part 4)

Main findings and conclusions

Expenditure compared with grant

5 Expenditure on benefits in 1998-99 was some £1,675 million less than the grant approved by Parliament. Expenditure is affected by a large number of factors that are difficult to predict in advance, such as the customer take-up levels of individual benefits and the impact of policy changes. During 1998-99 the actual number of awards for many benefits was consistently lower than originally forecast in particular for benefits payable to the disabled. The trend was identified during the year by the Department's monitoring procedures but the expenditure implications could not be quantified in time to allow a revised estimate to be put before Parliament for approval.

Accuracy of benefit awards and benefit overpayments

6 On Income Support the level of accuracy has continued to show year on year improvement increasing from 81.7 per cent to 83.4 per cent by volume between 1997-98 and 1998-99. However, the estimated gross monetary value of error has also shown a significant increase rising from £554.6 million in 1997-98 to £636.8 million in 1998-99. The Agency are continuing with a series of initiatives to improve the level of accuracy, including a greater emphasis on targets for financial accuracy rather than the number of correct cases. Nevertheless, the trend of accuracy to date suggests that significant improvements will take some years to achieve.

7 The NAO's examination of Jobseeker's Allowance awards in 1998-99 estimated the gross monetary value of error at £245.3 million. The level of accuracy by volume of cases, according to the results of the work of the Agency's own Quality Support Team, improved from 85.1 per cent in 1997-98 to 88 per cent in 1998-99. The high level of monetary error reflects the number of awards where there was insufficient evidence that the claimant satisfied the initial conditions for entitlement. The Agency and the Employment Service recognise the need to secure improvements in accuracy and are taking active steps to do so.

8 The Agency have succeeded in reducing the number of benefit cases awaiting overpayment action from 148,000 at 31 March 1998 to 84,000 at 31 March 1999. This was largely achieved through the operation of an Easement Package, which identified and wrote off some 386,000 old cases where recovery of any overpayments would not have been cost effective. The level of outstanding overpayments recorded on benefit systems has, however, risen to £799 million at

31 March 1999. The Agency attribute this rise to their success in improving the identification and control of debt processes and the drive to tackle abuse and incorrectness.

Benefit fraud

9 The Agency continue to afford priority to tackling fraud and abuse in the benefits system. In April 1997 the Agency initiated a series of area benefit reviews to estimate the level of incorrectness, including fraud in Income Support and Jobseeker's Allowance. Interim results from these reviews, which need to be treated with some caution, indicate the combined level of fraud on Income Support and Jobseeker's Allowance (income based) could be as high as £1.53 billion.

10 To tackle fraud on this scale the Agency embarked on a Security and Control Programme which aimed to deliver savings for a given level of investment. Initially the level of savings delivered matched the annual savings target but as the level of activities to counter fraud increased the savings target was no longer achieved. In 1998-99 the Agency reported savings of £1,141 million against a target of £1,781 million. My report highlights some of the operational difficulties faced by the Agency and reports on the validation exercise which adjusted the savings downwards by £525 million prior to performance levels being reported. The strategy for tackling fraud and error was reviewed and in March 1999 a command paper "A new contract for welfare: SAFEGUARDING SOCIAL SECURITY" (Cm 4276) switched the emphasis from chasing fraud savings to preventing fraud entering the system. In the Agency's view this demonstrated the ineffectiveness of measuring performance based solely on detection of fraud and the Agency curtailed the Security and Control Programme at the end of March 1999, replacing it with a new Programme Protection Strategy which began on 1 April 1999.

New initiatives to tackle fraud and error

11 The Programme Protection Strategy supports an overall target to reduce by 30 per cent benefit losses from both fraud and error in Income Support and Jobseeker's Allowance by 31 March 2007, with at least a 10 per cent reduction by 31 March 2002. In addition to measures within the Programme Protection Strategy the Department and the Agency are taking forward a number of initiatives to complement their anti-fraud strategies.

Overall conclusions

12 Whilst welcoming the improvements in volume accuracy of Income Support and Jobseeker's Allowance, and recognising the efforts of the Agency to improve accuracy, I remain concerned at the level of monetary error in these two benefits. Similarly, whilst I welcome the Agency's initiatives to tackle fraud and abuse in the benefit system, the level of benefit fraud continues to give cause for concern.

13 On the basis of my audit, I have qualified my opinion on the 1998-99 account because of the level of error in benefit awards, principally on Income Support and Jobseeker's Allowance, and because of the level of claimant fraud and the fraudulent encashment of instruments of payment, particularly orderbooks and girocheques.

Part 1: Expenditure compared with grant

1.1 This report summarises the results of my audit of the Department of Social Security Class XII, Vote 1 appropriation account for 1998-99.

1.2 In this part I examine expenditure on benefits compared with the grant approved by Parliament. The other parts examine:

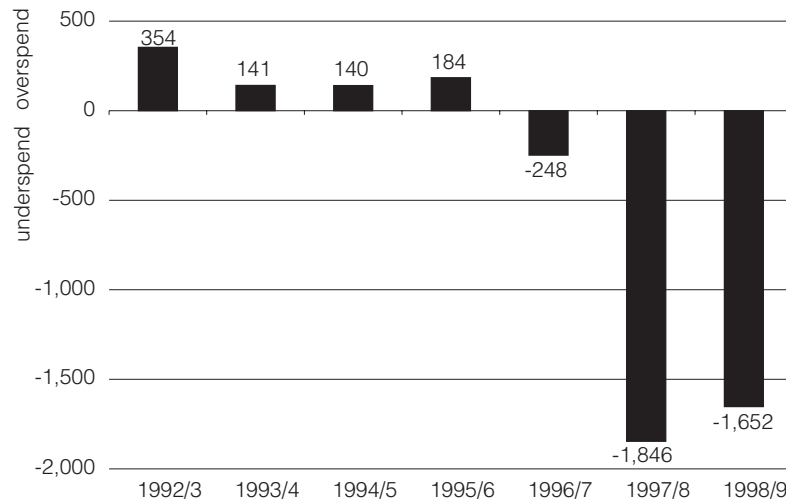
- Part 2: Accuracy of benefit awards and benefit overpayments;
- Part 3: Benefit fraud; and
- Part 4: New initiatives to tackle fraud and error.

Expenditure compared with the Grant

1.3 In 1995 and 1996, the Committee of Public Accounts expressed their concern about the accuracy of the Department's forecasting of benefits expenditure which led to excesses on Vote 1 in each of the four years ending 1995-96. In 1996-97 there was a small underspend of £248 million followed by a significantly larger underspend of £1,846 million in 1997-98 the reasons for which were covered in my last report on this account. This year the Department spent £1,675 million less than the grant of £38,187 million approved by Parliament (Figure 1).

Vote 1 overspends and under spends 1992-93 to 1998-99 (£ million)

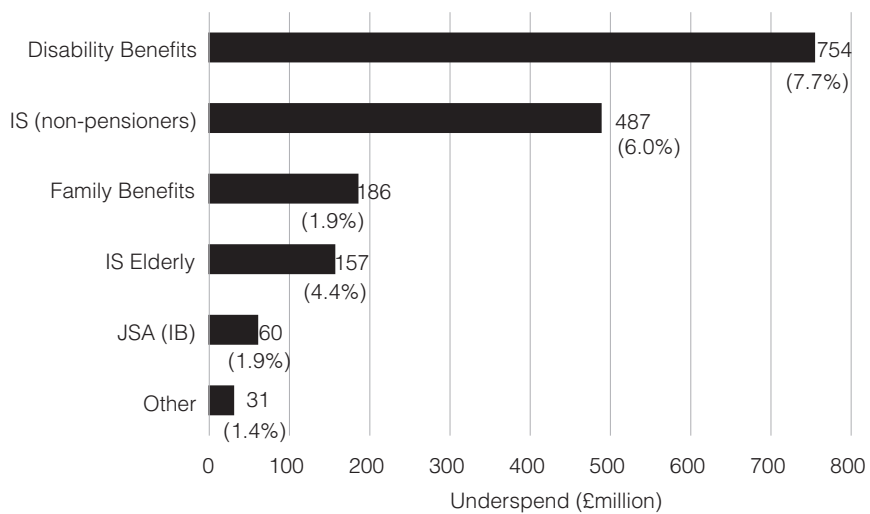
Figure 1



The overspends and underspends are calculated compared to the Parliamentary Grant. For the years 1993/93 to 1996/97 this included supplementary grants obtained within the financial year to which they relate. For 1997/98 the grant was based on the Main Estimate, which was produced before the beginning of the financial year.

1.4 In 1998-99 there were underspends on most of the individual benefits, the largest on disability benefits and Income Support. There was also a shortfall in appropriations in aid of £79 million. Figure 2 shows the extent of the underspends, compared with Grant for individual benefits.

Analysis of underspend Figure 2



*Percentage figures in brackets refer to the underspend as a proportion of net benefit expenditure.

1.5 As I have noted in previous years the demand-led nature of benefit expenditure means that there are inherent uncertainties in attempting to forecast spend. Expenditure is affected by a large number of factors that are difficult to predict in advance, such as the customer take-up levels of individual benefits and the impact of policy changes.

1.6 The National Audit Office's review of outturn has found that the actual number of awards of benefits was consistently lower than originally forecast. The most significant were benefits to the disabled where customer levels rose less than was anticipated at the time the Department prepared its forecasts.

1.7 The Department's in-year expenditure monitoring identified a large underspend before mid-year, in August 1998. Once the annual Appropriation Act was passed (16 July 1998) setting the year's Grant, the Department could not revise its forecasts downwards in line with revised expectations.

1.8 I have looked at whether the Department could have identified sooner that the forecasts were significantly higher than expenditure. I have found that monitoring of actual expenditure is too volatile to reveal a reliable pattern until August, when three full month's data is available. My review of benefit caseloads found that there were some indications of a possible underspend from early within the year. However, the full magnitude of the expenditure impact of lower than expected customer levels was not apparent until later in the year when it was quantified by in-year expenditure monitoring.

Conclusions

1.9 Fewer disabled customers than expected has led to expenditure being significantly less than anticipated when the forecasts were made prior to the start of the financial year. The Department identified this during the year from their expenditure monitoring, however by that time it was too late to reduce the Grant contained in the Appropriation Act. The number of new awards for Income Support (non-pensioners) was less than estimated and the average caseload was some 150,000 lower than expected. Similarly the IS for the elderly caseload was around 50,000 lower than originally forecast.

Part 2: Accuracy of benefit awards and benefit overpayments

Introduction

2.1 This part of my report sets out the results of my examination of benefit awards in 1998-99, in particular Income Support (paragraphs 2.6 to 2.23) and Jobseeker's Allowance (paragraphs 2.24 to 2.34) and the measures the Agency are taking to improve accuracy. I also examine the impact of delays to the new National Insurance Recording System (NIRS 2) on the accuracy of awards of certain benefits (paragraphs 2.35 to 2.37). The impact of error on the account and my audit opinion is set out in paragraph 2.38.

2.2 I review progress on the Benefit Integrity Project, which was intended to examine the correctness of certain awards of Disability Living Allowance (paragraphs 2.39 to 2.50). In the final section I examine the steps taken by the Agency to reduce the level of outstanding benefit overpayments (paragraphs 2.51 to 2.59).

Accuracy of benefits awards

2.3 My examination of this account is designed to obtain reasonable assurance to support my audit opinion. Much of the assurance is drawn from the scrutiny of a representative sample of benefits awards. I also take assurance from the systems of internal financial control operated by the Agency, from the Agency's quality assurance work and from the work the Agency have carried out to estimate the level of fraud on individual benefits.

2.4 My examination of transactions in 1998-99 provided assurance that on most individual benefits there was a low risk of material error arising from miscalculation or misinterpretation of benefit regulations. However, there was a material level of error on the account as a whole, mainly due to errors in Income Support and Jobseeker's Allowance.

2.5 Awards of Income Support and Jobseeker's Allowance are also significantly affected by fraud. The impact of fraud on awards and on my opinion on this account, is covered in Part 3 of my report.

The Accuracy of Income Support

2.6 Income Support is a means-tested benefit paid to claimants to bring their weekly income up to a level appropriate to their assessed needs. To qualify, claimants and their partners must be working less than 16 hours a week and must not have combined savings or capital over £8,000. Net expenditure on Income Support in 1998-99 was some £11,791 million¹.

2.7 Income Support is a highly complex benefit, with many different aspects of a claimant's circumstances affecting the correct level of benefit due in any one week. The Agency had to deal with millions of changes in circumstances in 1998-99, some of which were not reported by the claimant when they should have been. Some level of error is therefore unavoidable and, in evidence to the Committee of Public Accounts², the Agency stated that they estimated that ten per cent of payments would always be wrong due to the inherent complexities of the regulations.

2.8 I have previously noted that the Agency have established a Quality Support Team as part of their programme to improve the accuracy of benefit awards. This team visited each of the Agency districts twice in 1998-99 to examine the accuracy of a representative sample of Income Support awards, using a methodology very similar to that used by the National Audit Office.

2.9 The Quality Support Team extrapolated their results to produce an estimate of the monetary value of error in Income Support as a whole. For 1998-99, overpayments amounted to an estimated £426.1 million and underpayments amounted to £210.7 million. The gross error of £636.8 million³ represents some 5.3 per cent of expenditure on Income Support in 1998-99. The National Audit Office reviewed a representative sample of awards examined by the Quality Support Team, and based on this review I am satisfied that their work provided sufficient reliable evidence that there was a material level of error in Income Support in 1998-99.

2.10 The results of the Quality Support Team for 1998-99 indicate that the level of accuracy by volume of cases has improved from 81.7 per cent in 1997-98 to 83.4 per cent in 1998-99. However, despite the continued year on year

1 Sections E and I of the 1998-99 account, page 6

2 3rd Report, Session 1999-2000, HC 103

3 Notes to the Account, page 22

improvement in volume accuracy (see Figure 3) the Agency are still failing to meet the target of 87 per cent set by the Secretary of State and this still means that one in six cases are incorrect.

**The Agency's
Performance against the
Secretary of State's
accuracy target 1995-96 to
1998-99**

Figure 3

Year	Target (per cent)	Achieved (per cent)
1995-96	87	78.0
1996-97	87	80.8
1997-98	87	81.7
1998-99	87	83.4

2.11 Although the volume accuracy of Income Support cases continues to show an improvement in recent years, the value of individual errors has shown a significant increase in 1998-99. The estimated monetary value of error has risen from £554.6 million in 1997-98 to £636.8 million in 1998-99. In terms of expenditure on Income Support this represents an increase in the error rate from 4.5 per cent to 5.3 per cent.

2.12 As part of the Department of Social Security's strategy to reduce the level of losses of Income Support due to fraud and error, the Agency now have a target to reduce by 30 per cent the losses from fraud and error in Income Support and Jobseeker's Allowance by March 2007 with an interim target of at least a 10 per cent reduction by March 2002. This programme will concentrate on financial accuracy rather than accuracy by volume of cases, but I am concerned that it only addresses the level of overall loss to the Vote 1 Account (i.e. the level of overpayments rather than the level of financial error). The programme does not take account of any underpayments made by the Agency, which by their nature are those that have the most significant impact on claimants. However, the overall strategy is designed to take account of all these factors due to its focus on fraud and accuracy.

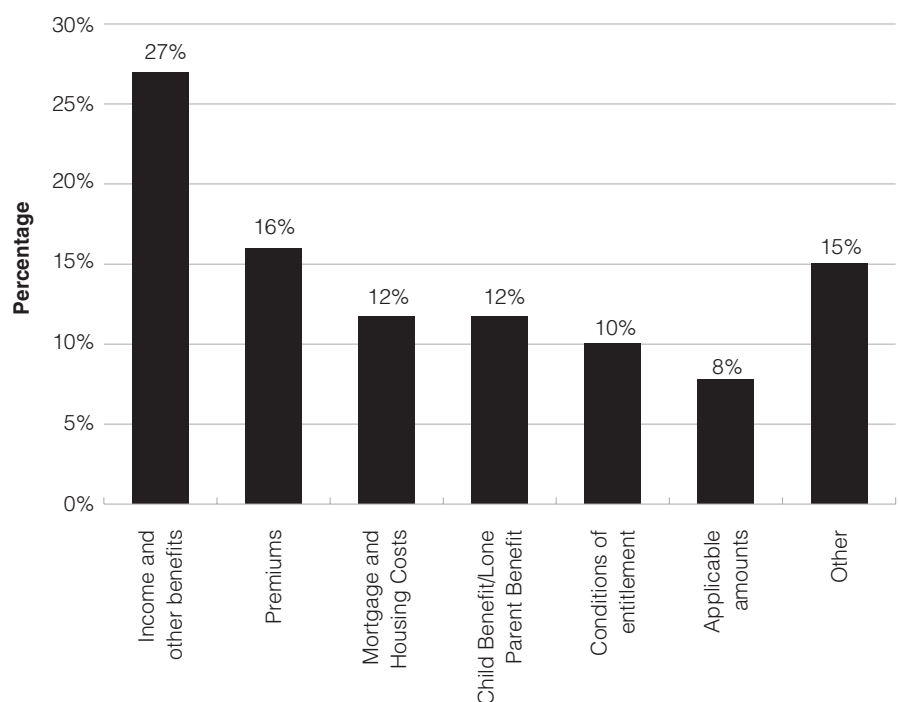
Causes of errors

2.13 The main causes of error in Income Support during the year are shown in Figure 4 below, and are similar to those identified in previous years. They reflect both the complex nature of the benefit and the many different circumstances that need to be considered when assessing entitlement to Income Support. The most common types of error were:

- *failure to take account of declared income* – for example from part-time employment;
- *incorrect treatment of premiums* – for instance failing to award premiums, payable to claimants with extra needs such as disablement or family responsibilities, when they were due to the claimant, or awarding a premium when the claimant had no entitlement to it;
- *mistakes in assessing awards of housing costs* – using incorrect mortgage balances, interest rates or failure to identify all qualifying loans;
- *incorrect assessment of other benefits received* – particularly Child Benefit and Retirement Pension, leading to mistakes in assessing the amount of Income Support due;
- *failure to satisfy the conditions of entitlement* – such as working more than 16 hours a week or having savings and capital above the specified limits; and
- *mistakes in determining applicable amounts* – for example failure to apply the correct scale rates.

Analysis of the causes of Income Support errors

Figure 4

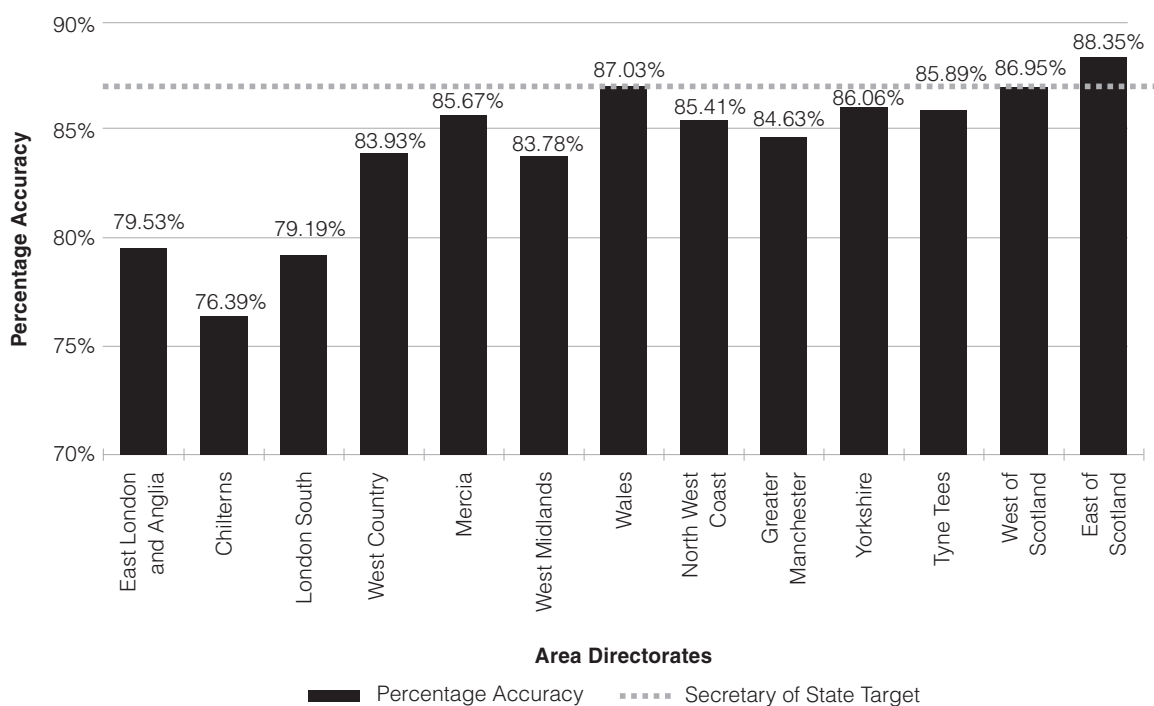


2.14 As the majority of the error types listed above are occurring at similar rates to previous years, under their new Programme Protection Strategy the Agency is setting out to investigate and target common causes of error. The Agency has, therefore, introduced a number of initiatives aimed at improving the accuracy rate and reducing the monetary value of error.

2.15 The national accuracy rate was 3.6 per cent below target, and Figure 5 below shows that some areas within the Agency actually performed at a much lower standard. Three area directorates recorded an accuracy figure of less than 80 per cent while there was a variation of almost 12 per cent between the accuracy rates of the best (88.3 per cent) and the worst (76.4 per cent) performing areas.

2.16 The lowest levels of performance are explained by the Agency as being due to increased difficulties being faced by the three area directorates in London and the South of England. These include difficulties in recruitment and retention caused by competition for quality staff and demographic factors which require more complex assessments in determining benefit entitlement (eg. Multiple Mortgage cases). In their efforts to address this problem the Agency have been developing management information systems which enable the active review of variations in performance across all areas. This information will then be used to target resources to raise the performance of poorly performing area directorates.

Figure 5 Accuracy of individual Area Directorates in 1998-99



2.17 In October 1997, the Agency introduced new safeguards at the point of the initial claim to ensure that Income Support is only payable to those claimants who have fully met all evidence of eligibility requirements. Only specific and original forms of evidence will now be accepted and Income Support is no longer payable until the claimant has provided all information required on the claim form.

2.18 The Agency are content that these measures strengthen the initial gateway to Income Support and improve the accuracy of payments whilst recognising the needs of claimants. Although the new safeguards do not address the high level of error prevalent within longstanding Income Support claims, these are being addressed in various other ways including caseload interventions and cross checks of data held on the various benefit computer systems.

2.19 As part of their strategy to improve the accuracy of Income Support awards, the Agency have introduced a number of initiatives to help improve the skills and morale of the staff dealing with Income Support cases. These include:

- recruitment of more staff on a permanent rather than temporary or fixed term basis;
- an improved training package for new members of staff; and
- refresher training to maintain technical skills.

Future Developments

2.20 In July 1999, the Agency introduced the new system of Decision-Making and Appeals aimed at simplifying the way they process claims and appeals. The Agency believe that this system will provide a more streamlined and accessible service and will also help improve claimants' understanding of their assessments and the decisions made on their behalf. A new appeals process is also aimed at providing a more efficient service to those claimants who are dissatisfied.

2.21 One of the difficulties faced by the Agency in their attempt to improve accuracy has been the inadequacy of the current Income Support computer system, which records details of claimants and awards. The Committee of Public Accounts have on numerous occasions expressed their concerns over the poor quality of information technology systems that the Agency have for dealing with Income Support and the potential impact that this has on the prevention and

detection of error. In response, the Agency have referred to their plans to modernise service delivery including a common database across all benefits and the introduction of automated risk management processes.

2.22 In a recent report on this subject the Committee of Public Accounts concluded that a key factor in improving accuracy was further simplification of the complex Income Support regulations. However, the Department maintain their assertion that there is little scope for simplifying the regulations, given the necessity of targeting those in need.

Conclusion

2.23 This is now the eleventh consecutive year that I have qualified my opinion on this account, in whole or in part, because of the level of error in Income Support awards. While I welcome the reduction in the errors by volume of cases, the increase in the monetary value of these errors is wholly unacceptable. The Agency still have to make significant progress before they are able to provide an acceptable level of service to their claimants.

Jobseeker's Allowance Accuracy

2.24 Jobseeker's Allowance was introduced in October 1996 as a replacement for Unemployment Benefit and that part of Income Support payable to unemployed people. It is intended as a means of support whilst an unemployed person looks for work, and consists of two elements. Jobseeker's Allowance (contribution based) is paid to those claimants who have a sufficient national insurance contributions record, whilst Jobseeker's Allowance (income based) is paid to those claimants who do not, or where the contribution based element of Jobseeker's Allowance is insufficient to meet their assessed needs. Claimants must demonstrate at the initial claim stage that they are available for, and actively seeking work to be eligible for this benefit and the actions they propose to take to find work are set out in a written Jobseeker's Agreement. Their labour market activity is reviewed fortnightly when they attend at a Jobcentre.

2.25 Jobseeker's Allowance is administered jointly by the Benefits Agency and the Employment Service. The Benefits Agency are responsible for those aspects of a claim relating to assessment and payment. The Employment Service are responsible, through a national network of jobcentres, for the labour market aspects of a claim, including the actively seeking and availability for work conditions. The complexity of regulations governing awards of Jobseeker's Allowance combined with the requirement for claimants to demonstrate that they

are available for and actively seeking work make Jobseeker’s Allowance a difficult and complex benefit to administer. In 1998-99 more than 2.85 million claims to Jobseeker’s Allowance were made. These claims are processed by the Benefits Agency and the Employment Service working closely together to achieve improved efficiency and accuracy.

2.26 In 1998-99 some £475 million was spent on contribution based Jobseeker’s Allowance, and £3,093 million on income based Jobseeker’s Allowance. Expenditure on contribution based Jobseeker’s Allowance is re-imbursed from the National Insurance Fund as appropriations in aid to this account leading to a risk that award of the incorrect type of Jobseeker’s Allowance will affect the accuracy of both the Vote 1 account and the National Insurance Fund account.

2.27 The National Audit Office examined a two-stage representative sample of 960 Jobseeker’s Allowance awards made during 1998-99 in 24 jobcentres throughout the country. The National Audit Office have continued to refine their audit methodology for the 1998-99 audit leading to a slightly more in-depth review of eligibility of sampled claims. Based on the results of this sample examination, the National Audit Office estimated that in Jobseeker’s Allowance as a whole, understatements were £5.8 million and overstatements £239.5 million (Table 1).

**Jobseeker’s allowance –
National Audit Office
results for 1998-99**

Table 1

	Estimated value of error in 1998-99 (£ million)	Value of error as a percentage of reported expenditure in 1998-99
Cash error overpayments	151.8	4.2
Cash error underpayments	5.8	0.2
Gross cash error	<u>157.6</u>	<u>4.4</u>
Regularity error overpayments*	<u>87.7</u>	<u>2.4</u>
Gross error	245.3	6.8

* Regularity errors relate to cases where there was no valid Jobseeker’s agreement covering the audit period. Other conditions of entitlement to Jobseeker’s Allowance were met in these cases.

2.28 The main causes of error found by the National Audit Office were the failure to:

- *satisfy the labour market conditions* – not being available for and actively seeking employment;

- *enter into a valid Jobseeker's Agreement* – as a condition of entitlement to benefit;
- *impose sanctions* – for example following failure to attend a job interview without good cause;
- *take account of declared income* – for example part-time earnings or occupational pensions; and
- *take account of other benefits being received by the claimant*- such as Child Benefit or Family Credit.

2.29 In addition to the errors shown in Table 1, the National Audit Office estimated that there were a further £9.3 million of non-cash errors where the wrong type of Jobseeker's Allowance was paid. Whilst these errors do not affect the amount of benefit received by claimants, they imply that the overall sum recorded in the account as contribution based Jobseeker's Allowance (and also the sum received as appropriations in aid from the National Insurance Fund) should have been £9.3 million greater. In addition, paragraphs 2.35 to 2.37 of my report refer to the difficulties experienced by the Benefits Agency in determining claimants' entitlement to contributions based benefits due to the delays in the implementation of the new National Insurance Recording System (NIRS2). The absence of up-to-date contributions information during 1998-99 meant that I was unable to confirm that the correct type of Jobseeker's Allowance had been awarded in some of the cases that I sampled.

2.30 During 1998-99 the Benefit Agency's own Quality Support Teams examined 30,000 awards of Jobseeker's Allowance of which 88 per cent were found to have been accurately decided. This compares with 85.1 per cent in 1997-98. The Quality Support Team estimate of the overall gross level of error was £243.8 million, close to the National Audit Office estimate of £245.3 million. Both sets of results support the conclusion that there was a material level of error in Jobseeker's Allowance in 1998-99.

2.31 Jobseeker's Allowance is complex to administer, and the Employment Service have the added challenge of ensuring that this benefit is delivered accurately alongside other key employment initiatives. Against this background the Employment Service have continued to seek to improve accuracy in their administration of the benefit in a number of ways, for example:

- introducing a new Annual Performance Agreement target on checking Jobseeker's Allowance labour market activity, to help ensure that Employment Service staff at Jobcentres, and claimants themselves, fulfil their respective Jobseeker's Allowance responsibilities more effectively;
- monitoring performance against this new target;
- issuing additional guidance to Jobcentre staff on issues relating to availability for work and actively seeking work; and
- reinforcing to staff the importance of having jobseeker's agreements in place.

2.32 Following the examination of claims to Jobseeker's Allowance in 1998-99, the Employment Service will be building on this programme of action. To assist with this, I have agreed with the Employment Service Chief Executive that the Employment Service and the National Audit Office will work together to further enhance the application by the Employment Service staff of the processes and systems to test and monitor individual's entitlement to Jobseeker's Allowance in order to ensure greater levels of accuracy in 1999-00 and beyond.

2.33 Similarly the Benefits Agency have also been taking steps to improve accuracy by promoting more effective working relationships with the Employment Service through the delivery of workshops for frontline staff designed to address organisational issues contributing to inaccuracy.

Conclusion

2.34 I am concerned at the level of monetary inaccuracy in Jobseeker's Allowance awards in 1998-99. However, I am satisfied that the Benefits Agency and Employment Service both recognise the need to secure improvements in accuracy and are taking urgent and comprehensive action to achieve this. It is clear that they face a significant continuing challenge in seeking to do so.

Delays to the new National Insurance Recording System

2.35 The National Insurance Recording System maintains the records of over 65 million national insurance accounts. One of the main functions of the system is to provide details of national insurance contributions to the Benefits Agency to enable awards of contributory benefits, such as Retirement Pension, Widows Benefit, Incapacity Benefit and contributions based Jobseeker's Allowance to be

assessed. Without this information such awards cannot be finalised. The Department recognised that because of the implementation of new pensions legislation in April 1997 and because the existing system was ageing, a new system was needed. Following a competitive tendering exercise a contract, under the private finance initiative, was awarded to Andersen Consulting to deliver a new system by April 1998. Andersen Consulting were unable to meet this date but the new system was introduced, on a phased basis, from July 1998.

2.36 On 12 July 1999 the Committee of Public Accounts published their report (HC 182 1998-99) which looked at the causes of the delays and the impact these delays had on the citizen including present and future benefit claimants. They concluded that as a consequence of delays to full implementation of the system, pensioners, widows and benefit claimants had suffered both uncertainty and fear. Uncertainty about their level of income and fear that they may have to repay at an unspecified time in the future any amounts that had been overpaid. A main cause of the problem was the failure to post the required number of national insurance contributions to individual contributors' accounts by 31 December 1998. This meant that the Benefits Agency were unable to finalise awards of contributory benefits payable from the National Insurance Fund and they had to make payments on an interim or emergency basis. This included the payment of benefits such as Income Support from Class XII Vote 1, pending confirmation of the correct rate of contributory benefit. Payment of benefits on an interim basis has inevitably led to both underpayments and overpayments as the level of entitlement could not be confirmed. Under these circumstances, payments made from this account may have been made in error and expenditure could be over or under stated with an opposite impact on the National Insurance Fund. The Agency are compensating individuals who have suffered as a consequence of delays in implementing the system.

2.37 The Benefits Agency aim to review all cases assessed under the interim or emergency arrangements during 1999-2000. Where the incorrect benefit or the wrong rate has been paid the Agency will take steps to provide correction either by paying arrears to claimants or, where appropriate, by following the procedures governing the treatment of overpayments. Additionally the Agency will make any adjustments necessary to correct amounts wrongly paid either from this account or the National Insurance Fund during 1999-2000. I will monitor developments during my audit of the 1998-99 National Insurance Fund and as part of my examination of next year's account.

Impact of error on the account and audit opinion

2.38 In forming my audit opinion I am required to confirm that the account is free from material misstatement. In view of the level of error and uncertainty within the account, principally within payments of Income Support and Jobseeker’s Allowance, I have no alternative but to qualify my audit opinion.

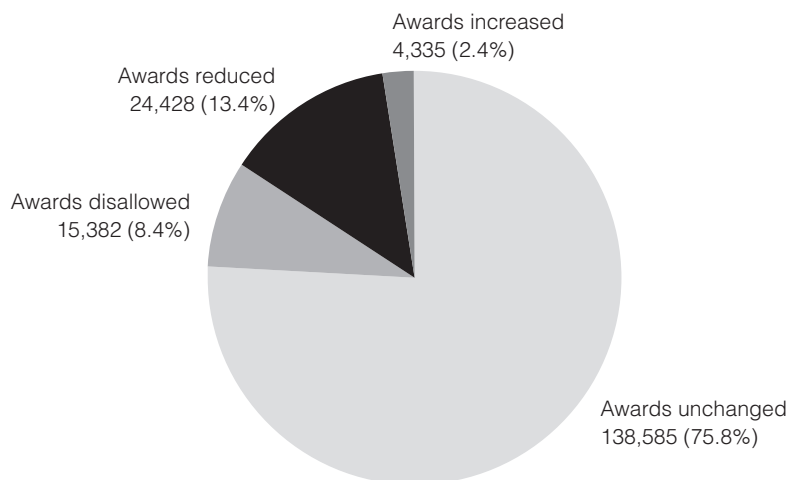
The Benefit Integrity Project

2.39 The Benefit Integrity Project began in April 1997, and was designed to review entitlement to Disability Living Allowance for those claimants receiving the higher rate mobility component of the benefit, together with the highest or middle rate care component. In my report on the 1997-98 account I noted that the Secretary of State for Social Security had informed Parliament of the Government’s proposals to replace the Benefit Integrity Project with a new system in which Disability Living Allowance awards would be regularly checked to ensure that the right level of payment was being made. Following consultation the Benefit Integrity Project was officially terminated at the end of March 1999.

2.40 During the course of the Benefit Integrity Project the results were reported monthly to Parliament. The results of the entitlement review are set out in Figure 6. Savings as a result of the project have been estimated at £8 million in 1997-98 and £30 million in 1998-99.

Benefit Integrity Project results to 31 March 1999

Figure 6

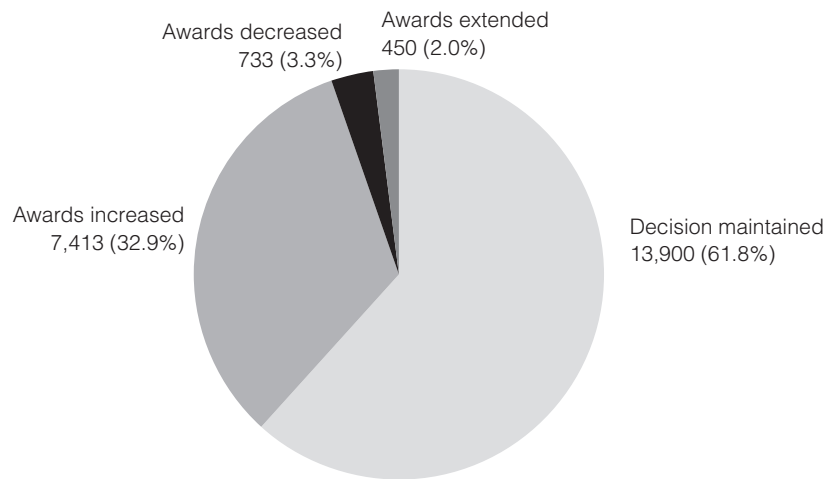


Based on an examination of 182,730 awards

2.41 In total to date 27,857 claimants have requested a review of the decision on their award of benefit made under the project. Where such a request was made, the decision of the original adjudication officer was re-examined by another adjudication officer not involved in the original decision. By 31 March 1999, 80 per cent of reviews (22,496 cases) had been completed and the results are shown in Figure 7.

**Benefit Integrity Project
results of completed
review cases at
31 March 1999**

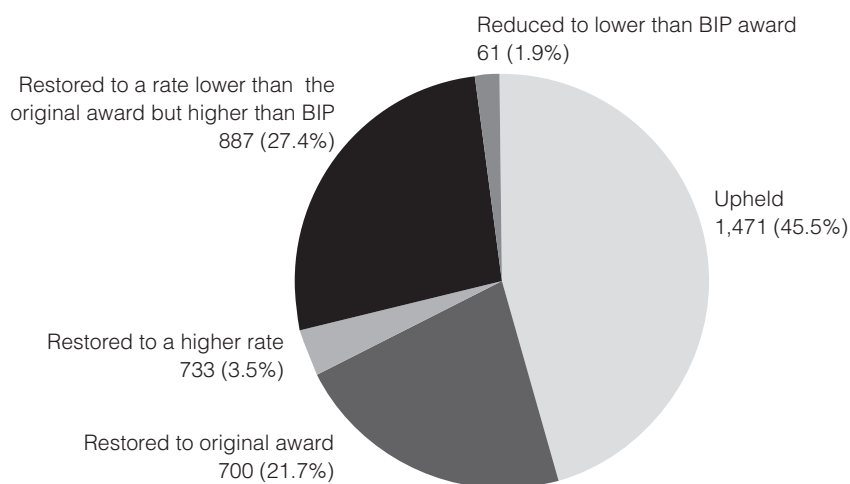
Figure 7



2.42 If a claimant was not satisfied with the outcome of a review, they were entitled to lodge a formal appeal to be considered by a tribunal independent of the Agency. At 31 March 1999, 7,865 appeals had been registered of which 3,232 had been cleared. Figure 8 (opposite) shows the results of the cases cleared:

**Benefit Integrity Project
results of cleared appeals
cases at 31 March 1999**

Figure 8



2.43 The House of Commons Social Security Select Committee examined Disability Living Allowance, including the Benefit Integrity Project. One of their recommendations regarding the Project was that claimants, who had their Disability Living Allowance award reduced or withdrawn before the introduction of the requirement for additional evidence announced in February 1998, should be contacted and offered a fresh assessment of their benefit entitlement. Although there were some legal and operational difficulties in doing this, in August 1998 the Agency began contacting claimants who had been identified as meeting the criteria for the offer of a fresh assessment. Where the claimant accepted the offer of a fresh assessment, and their award was re-instated at the original value, they would receive payment of arrears back to the date of the reduction or removal of the award.

2.44 In all the Agency contacted 962 claimants to ask if they wished a fresh assessment. 309 claimants replied requesting a review, of which 160 claimants had their award of Disability Living Allowance increased while 23 had their awards further reduced or withdrawn. Because of the decision to pay arrears back to the date of the reduction or removal of the original award it was necessary to make 124 extra-statutory payments totalling some £105,000.

2.45 Under Disability Living Allowance rules the claimants are required to inform the Agency if the circumstances of their disability changes. The Benefits Integrity Project identified a large number of cases where claimants had not notified the Agency of changed circumstances resulting in the overpayment of benefit. Initially the Agency, following usual practice, calculated the correct benefit

from the date of the review. However, on advice from the Central Adjudication Service, Adjudication Officers began to look to the date the circumstances of the claimant changed, often a much earlier date, resulting in many cases in large overpayments. Because of concerns by the Government that many claimants may not have been aware that a material change had occurred in their circumstances, and because of the distress and hardship likely to occur, the Secretary of State for Social Security, on the 25 February 1999, issued an Accounting Officer direction to the Agency to ensure that, except in cases of fraud, action would not be taken to recover any Disability Living Allowance or Attendance Allowance overpayments arising from questions of disability, including those identified under the project. A clause introduced into the Welfare Reform Bill is intended to give Parliamentary approval to this action.

Periodic enquiry process

2.46 Following the difficulties experienced with the Benefit Integrity Project, the Government wished to introduce a process that would ensure that Disability Living Allowance claimants were receiving the correct amount of benefit, but based on an approach that was fairer and more sensitive. To achieve this the Department developed the periodic enquiry process in close consultation with organisations of and for disabled people.

2.47 The periodic enquiry process was introduced in June 1999. Enquiries are being made by post and by visit to the claimant's home where they are assisted in the completion of the enquiry form. The completed enquiry form will allow the Department to identify the need for any further evidence and to review the claimant's entitlement if appropriate. This new process does not remove the responsibility from the claimant to inform the Department of any change to his or her condition that may effect entitlement.

2.48 Certain categories of Disability Living Allowance claimants will be exempt from the periodic enquiry process because of the nature and severity of their disability. These include: any cases that were excluded from the Benefit Integrity Project; any cases with a fixed period of award due to expire within the next 3 years; claimants who have had their case reviewed or adjudicated on within the last 12 months; and any cases of the terminally ill as defined by the Department. Claimants who were subject to the Benefit Integrity Project will also be excluded. Cases involving claimants with mental health problems, and cases made on behalf of children will be excluded until such time when procedures have been fully discussed and agreed with organisations of and for the disabled community and staff have been given the appropriate specialist training.

2.49 The first phase of the periodic enquiry process involves untargeted postal and visit enquiries, selected at random and designed to learn the maximum possible about the new approach prior to wider implementation. The Department intends to monitor closely the new process, and to conduct a full evaluation after six months of operation. The findings will be used to start improving the process to make it more sensitive to the circumstances of the individual. Eventually each new award of Disability Living Allowance and Attendance Allowance will be reconsidered according to a timetable set when entitlement commences. The frequency of review will depend on factors that influence the likelihood of change in the claimant's condition. Factors may include the type of impairment, the age at date of onset, prognosis etc. Evaluation of the periodic enquiry will help to inform the development of a system for allocating the most appropriate review date.

2.50 The first six months of periodic enquiry will be completed at the end of December 1999, at which time approximately 13,000 cases should have been considered. The findings from the evaluation of this initial phase are expected to be available in March 2000. I will monitor progress with the introduction of these new procedures as part of my audit of the 1999-2000 account.

Benefit overpayments

2.51 One consequence of inaccurate benefit awards is that claimants receive the wrong amount of benefit. Where underpayments are discovered, the Agency make good the difference to the claimant. Where an overpayment arises, the Agency would normally seek recovery of the sum if the overpayment was due to claimant error or fraud, or they would write off the sum if the overpayment was due to error by the Agency. In my Report on the 1997-98 account I noted the concerted action the Agency had been taking to reduce the backlog of potential benefit overpayments which, at 31 March 1997, stood at 285,000 cases. By 31 March 1998 the Agency had succeeded in reducing the number of cases awaiting calculation to 148,000 (a considerable improvement on the target of 165,000) and I am pleased to note that continued efforts throughout 1998-99 have resulted in a further reduction to 84,000 by 31 March 1999. This reduces the number of cases to a level that the Agency consider to be the normal monthly turnover of cases and, in effect, removes the backlog.

2.52 As part of their drive to clear the backlog in 1997-98 the Agency launched an initiative to identify and write off uncalculated recoverable debts over eighteen months old, and all uncalculated non-recoverable debts. This initiative is known as the Easement Package. The Agency's view was that these backlog cases, where it would have been difficult to make any recovery, were diverting effort from collecting newer, more viable, debt.

2.53 In all during 1998-99 386,000 cases were written off as a result of the Easement Package. The estimated value of the write-offs was £89.6 million of which £55.7 million (62.2 per cent) was in respect of Income Support. A further 38,000 cases totalling an estimated £9.6 million were also written off in respect of benefits charged to the National Insurance Fund account.

2.54 In my Report on the 1997-98 accounts I noted that the Department were developing a new computerised Debt Accounting and Management System (DAMS), based on commercially available software. After some development work had taken place it became clear that the commercial software could not be adapted to deal with the complexity of the rules covering Social Security debt. At that point the Department decided to abandon the DAMS project.

2.55 It was not possible for the Department to immediately implement a long-term solution to the failure of the DAMS project, and so in the short term they have resorted to a contingency plan. The contingency plan has two phases, the first of which required that the Department ensure that the system in current use, known as OPREC, was Year 2000 compliant. This was achieved by the end of October 1999 in accordance with the agreed timetable. Data from the Programme Accounting Computer System (PACS) is also being used to facilitate debt recovery action. The Department intend to introduce more accounting controls into OPREC to go live no later than March 2000.

2.56 Phase two of the contingency plan relates to a long-term solution of the debt problem. While working to improve the situation in phase one, the Department plan to have considered preliminary options for the future by December 1999, with a full study of the proposed solutions completed by March 2000.

2.57 The easement package was due to be in operation only for as long as it took to introduce the new computerised system (DAMS). Because this system will not now be introduced the Treasury approved the continuation of the Easement Package, with a review to be carried out early in 2001-2002. For 1999-2000 the Department intend to focus the Easement Package on newly arising non-recoverable debt.

2.58 The Agency recovered £153.1 million of overpayments during 1998-99, and wrote off a further £25.8 million of overpayments. Despite this, the total value of outstanding overpayments on benefit systems rose from £597 million at 31 March 1998 to £799 million at 31 March 1999, an increase of £202 million. The Agency attribute the main reason for this to their success in improving the management and control of debt processes (which reduced the number of

outstanding cases by 201,000 between March 1997 and March 1999) and the drive to bear down on abuse and incorrectness. The additional flow of cases identified through the programme protection initiative is likely to continue throughout 1999-2000.

Conclusion

2.59 The Agency have achieved their target of effectively eliminating the backlog of benefit overpayments by 31 March 1999, principally through the continued operation of the Easement Package. I welcome the Agency's greater commitment to the identification of overpayments and dealing with them on a more timely basis. However, I remain concerned that the value of outstanding overpayments on benefit systems awaiting recovery or write-off action rose to £799 million at 31 March 1999. The Agency need to focus their efforts on reducing this sum.

Part 3: Benefit Fraud

Introduction

3.1 This part of my report examines the results of the Agency's activities to combat fraud (paragraphs 3.2 to 3.7) and their work to estimate the level of fraud on individual benefits (paragraphs 3.8 to 3.11). I also cover losses due to fraudulent encashment of instruments of payment and the impact of fraud on my audit opinion (paragraphs 3.12 to 3.13).

The Benefits Agency's Security Strategy and Security and Control Programme

3.2 In July 1995 the Secretary of State announced a security strategy to combat fraud in the benefit system. Under the strategy the Agency planned, over a five year period (1995-96 to 1999-2000), to put new emphasis on preventing fraud happening in the first place, and establishing claimants' entitlement correctly at the outset, whilst continuing to develop and improve methods of detecting and investigating fraud and error.

3.3 This security strategy was supported by a Security and Control Programme. The Programme was comprised of a number of separate but inter-related projects designed to achieve a demonstrable and sustained reduction in the levels of fraud and error over the five years. It was funded on an invest –to-save basis and the Agency aimed to secure a payback of weekly benefit savings of over £6 billion over the five years of the Programme for an investment of £1.25 billion. In the four years to 1998-99 the Programme produced weekly benefit savings of £3.636 billion at a total cost of £0.78 billion. Total benefit savings in 1998-99 from all the activities carried out by the Agency amounted to £1,645 million against the overall Secretary of State target for the year of £2,300 million.

Savings achieved by the Security and Control Programme

3.4 In my reports in previous years I looked at the achievement of savings from the activities of the Security and Control Programme, and commented on the comprehensive validation programme undertaken each year by the Agency and their Audit division leading to significant reductions in reported savings. In 1998-99, the Programme reported final weekly benefit savings of £1,141 million – some £640 million (36 per cent) short of the target of £1,781 million.

3.5 Performance figures across all the major contributors to the Security and Control Programme target fell considerably in 1998/99. The Agency told me that a number of specific factors led to a shortfall in the year end outturn. The major ones being evidence requirements and other gateway controls, the radically changing environment of fraud and security work and a number of operational difficulties that the field had to cope with (for example staff shortages and the redeployment of staff). Areas showed a great deal of commitment in their preparations for the move to the new Programme Protection regime which impacted on their ability to achieve savings against the Security and Control Programme target. The Agency also believes that the tightening of gateway controls has started to have a positive impact on the amount of fraud and inaccuracy creeping into the system. In addition, the original savings estimates included projected reductions in instruments of payments loss following the introduction of the Benefit Payment Card. As mentioned elsewhere in this report the Benefit Payment Card element of the wider Horizon programme was cancelled.

3.6 As in previous years, the final published savings figure for 1998-99 was arrived at following a significant reduction on the initial amount claimed resulting from an extensive internal validation programme. The initial figure was reduced by some £525 million (31.5 per cent) as a consequence of validation. This was the largest overstatement from the four years of the Programme, but it does suggest that the validation programme was conducted with integrity and robustly. In addition, as in previous years, technical difficulties meant that the Agency could not validate a small percentage of claimed savings (6.6% in 1998-99). Figure 9 shows, from 1995-96 to 1998-99, the initial savings figures compared with the actual savings figures following validation.

Security and Control Programme – savings target and pre-validation savings against adjusted savings 1995-96 to 1998-99

Figure 9

	1995-96	1996-97	1997-98	1998-99	Total
	£ million	£ million	£ million	£ million	£ million
Savings Target	403	786	1,412	1,781	4,382
Pre-validation Savings	507	997	1,503	1,666	4,673
Adjusted Savings	454	828	1,213	1,141	3,636

3.7 Forecast savings from the Security and Control Programme reduced as the level of activities to counter fraud increased. In 1998-99 the strategy for tackling fraud and error set out in the command paper “A new contract for welfare: SAFEGUARDING SOCIAL SECURITY” which switched the emphasis from chasing fraud savings to preventing fraud entering the system. In the Agency’s view this demonstrated the ineffectiveness of measuring performance based solely on

detection of fraud. The Security and Control Programme was curtailed at the end of March 1999 to be replaced with a new Programme Protection Strategy which began on 1 April 1999.

Estimates of the level of benefit fraud

3.8 Since the mid-1990s the Agency have used a series of benefit reviews to provide Parliament with information on the level of incorrectness, including fraud, in individual benefits. I have previously reported the results of benefit reviews announced in the four years 1994-95 to 1997-98. The results of these reviews are summarised in Table 3.

Results of benefit reviews announced from 1994-95 to 1997-98	Table 3			
	Benefit	Date results announced	Claims where fraud confirmed or highly suspected (%)	Estimated annual loss due to fraud (£ million)
	Income Support (1st Review)	July 1995	9.7	1,409
	Invalid Care Allowance	July 1996	6.5	37
	Disability Living Allowance	February 1997	12.2(*)	499(*)
	Income Support (2nd Review)	July 1997	11.1	1,774
	Child Benefit	July 1998	5.4	184
	Jobseeker's Allowance (Contributory) (**)	October 1998	9.3	47

(*) These figures reflect aggregated estimates of fraud and high suspicion of fraud, but the Agency have emphasised that their report on the benefit review of Disability Living Allowance showed fraud in 1.5 per cent of cases resulting in an estimated annual loss of £78 million. A further 10.7 per cent of cases were strongly suspected of being fraudulent with an estimated annual loss of £421 million. The Agency considered that there were particular difficulties in estimating fraud in Disability Living Allowance because entitlement depends on care and mobility needs which are not easily assessed other than through the formal adjudication process.

(**) Refunded by the National Insurance Fund

3.9 There have been no further full national benefit reviews since my last report while the Agency have focused effort and resources on initiating continuous measurement of those benefits incurring greatest programme spend and potential for loss through fraud, namely Income Support and Jobseeker's Allowance.

Although the assessment of how far benefits might be materially affected by fraud and error is incomplete, the Agency is committed to reviewing all major benefits recorded on this account unless there are strong indications that a full review would not provide value for money

Area Benefit Reviews

3.10 In my 1997-98 report I explained how the Agency had initiated a series of area benefit reviews from April 1997 to estimate the level of incorrectness, including fraud, in Income Support and Jobseeker's Allowance (income based). Following a brief pilot exercise, formal measurement of results began in September 1997. On 27 November 1998, the Government Statistical Service published some interim findings from these reviews that estimated a combined annual loss to fraud of £1.53 billion: around half through cases of confirmed fraud, and half through high suspicion of fraud. High suspicion of fraud arises where investigations fall short of obtaining absolute proof to establish the fraud, perhaps through confession or third party evidence. In assessing the potential losses to public expenditure the Agency have felt it essential that these unproven but very likely frauds were not omitted. In total fraud plus high suspicion of fraud represented some 9.8 per cent of expenditure on the two benefits during 1997-98. At the time I indicated that the Government Statistical Service report had prudently made it clear that these interim results needed to be viewed with some caution.

3.11 I also said in my report on the 1997-98 accounts that the Agency expected to produce a collation of the first full year's results from Area Benefit Reviews in early 1999. Circumstances have changed in the intervening period in that Area Benefit Review results will in future form one part of the measurement of the Department's performance on fraud and error under the Public Service Agreement – the other part being provided by Quality Support figures on official error. Due to the complexities involved in merging these two sources of information, publication of the Area Review results has had to be delayed.

Losses due to fraudulent encashment of instruments of payment

3.12 The Agency have estimated losses arising from the fraudulent encashment of order books and girocheques for benefit expenditure as a whole, which amounts to £102.6million. Statistical evidence is not available to determine losses for individual benefits paid from this account, but if the allocation of the estimated loss was calculated in proportion to benefit expenditure the loss to this account would be of the order of up to £46 million. The Benefits Agency believe, however, that the greater loss would occur on Income Support and income based Jobseeker's

Allowance due to the greater risk of instrument of payment fraud on these benefits compared with benefits paid from the National Insurance Fund. On this basis, the loss to this account would be greater than £46 million.

Impact of fraud on the account and audit opinion

3.13 In forming my audit opinion I am required to confirm that the account is free from material misstatement, whether caused by error, fraud or other irregularity. In view of the level of benefit fraud and the fraudulent encashment of instruments of payment disclosed by the Benefits Agency's work I have no alternative but to qualify my audit opinion on this account.

Part 4: New Initiatives to tackle fraud and error

4.1 Tackling fraud and abuse remains one of the Department's top priorities, and this was re-iterated in the Government Green Paper "Beating Fraud is Everyone's Business (Cm 4012) published in July 1998. Following a consultation period a revised strategy was published in the Government White Paper "A new contract for welfare: SAFEGUARDING SOCIAL SECURITY" (Cm 4276) in March 1999. This recognised the inadequacies of the previous security strategy and introduced a new performance management regime. This regime supports an overall target to reduce by 30 per cent benefit losses from fraud and errors in Income Support and Jobseeker's Allowance by March 2007, with at least a 10 per cent reduction by March 2002.

The Programme Protection Strategy

4.2 The Programme Protection Strategy is the Department's response to the Secretary of State's concerns that far too much was being lost through fraud and error, and that there was a need for a consistent "end to end" approach to ensure secure and accurate benefit administration. He also felt that members of staff were set unhelpful targets and that information collected from claimants was not always used intelligently. As a result the existing security strategy was curtailed at 31 March 1999.

4.3 The replacement strategy introduces some significant changes. Fraud will be viewed differently (excluding high suspicion), and fraud and error will be looked at as a combined measure of the loss to public funds. There will be a single target for reducing fraud and error (30 per cent by 2007) and a new process to measure achievement against this target. In addition much more responsibility will be devolved from the centre to the Agency's 13 Area Directorates. The Area Directorates will produce Programme Protection Plans which will outline the amount of resources invested, the activities to be delivered and the anticipated effect of these actions on programme loss. Underpinning the outcome target and the plans are a series of progress indicators which provide performance trends and information on whether resources are being targeted effectively.

4.4 Funding of the Programme Protection Strategy will initially be through the Public Service Agreement 1999-2000 between H M Treasury and the Department of Social Security (Cm 4315). Allocations to Area Directorates to fund their Programme Protection Plans for 1999-2000 amount to some £277 million.

4.5 It is too early to assess the benefits of the Programme Protection Strategy. I will monitor the progress of the new Strategy over the forthcoming year and provide comment where appropriate in my report on the 1999-2000 accounts.

Other initiatives to combat fraud and error

4.6 In addition to the measures within the Programme Protection Strategy there are a number of initiatives being taken forward by the Department and the Agency designed to assist business change and improve benefit delivery. These complement the Agency's strategic approach to combating benefit fraud and are in various stages of development.

Information Technology

4.7 The Personal Details Computer System (PDCS) is being developed to provide a single database for a common set of personal details for all benefit claimants. The PDCS is now in use for Income Support and Jobseeker's Allowance and other benefits within this account and the intention is to extend it to cover all benefits in the future.

Data sharing and data matching

4.8 The Agency have been working with local authorities to implement improvements in the way information is shared using automated links. This includes the installation of Remote Access Terminals in local authorities allowing them access to Agency data. In addition, under powers within the 1997 Fraud Act, data matching will be extended where practicable to include information held by Inland Revenue, Customs and Excise, Royal Mail and agencies of the Home Office.

Payment Method

4.9 A Method of Payments Strategy is under development which aims to move towards full automation of all payments and to develop better ways of protecting current paper based methods of payment during the transitional period. In addition the use of bar code scanners is being extended to more parts of the country as a means of addressing the fraudulent encashment of order books.

4.10 Since my last report *The Horizon Programme* to automate the payment of benefits through post offices was subject to a Treasury review which concluded that it should be reconfigured to cancel the Benefit Payment Card element of the project. The Benefit Payment Card was designed initially as a better and more secure way of delivering benefits to customers. The Agency are considering what changes they need to make to existing systems in the light of this decision.

4.11 I shall continue to monitor the Agency's initiatives to combat fraud and error in the benefits system, and to report progress in my reports on future years' accounts.

John Bourn
Comptroller and Auditor General

13 January 2000

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