

Department for Work and Pensions  
**Tackling Benefit Fraud**



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL  
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# executive summary

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## Introduction

- 1 The Department for Work and Pensions spend around £100 billion a year on welfare benefits, representing more than a quarter of central government expenditure. Even a small proportion of fraudulently claimed benefits therefore costs billions of pounds. It is inherently difficult to know the full extent of fraud, but the Department estimate that they lose some £2 billion a year. This equates to around £80 a year for each household in Great Britain. Most of this arises on: Income Support, Jobseeker's Allowance and Housing Benefit. Fraud also undermines public confidence in the integrity of the benefit system.
- 2 The Department's target is to reduce the level of fraud and error on Income Support and Jobseeker's Allowance by 50 per cent, and on Housing Benefit by 25 per cent, by 2006. All benefits are vulnerable to fraud because, in assessing entitlements, the Department must rely mainly on information provided by customers who can provide false information or conceal their true circumstances. The complexity of benefit regulations also makes it easier for customers to hide deliberate frauds as unintentional errors.
- 3 The Department's current approach to tackling fraud dates back to a 1999 White Paper ("A new contract for welfare: safeguarding social security", Cm 4276). This concluded that too much was being lost at that time through fraud and error. The major underlying causes were seen as:
  - The security of claims was not at the heart of the benefit system;
  - Incentives focused on finding fraud, but not on stopping it happening;
  - Information on claims was not used intelligently to help prevent fraud;
  - Safeguarding payments was considered as an afterthought, once the payment had been made.
- 4 To tackle these problems, the Department set out to improve security, incentives, the measurement of fraud and the commitment of their staff to tackling fraud. They proposed action on four fronts:
  - *Getting it right* - aiming to get benefit payments correct from the start;
  - *Keeping it right* - ensuring payments are adjusted as circumstances change;
  - *Putting it right* - detecting when payments go wrong and taking prompt action to correct them with appropriate penalties to prevent a recurrence;
  - *Making sure the strategy works* - monitoring progress, evaluating the strength of preventive measures and adjusting them in the light of experience.

- 5 This Report examines the success of the Department for Work and Pensions in tackling benefit fraud, in particular:
- the scale and nature of fraud faced by the Department;
  - the efforts to prevent, detect, investigate and impose sanctions on frauds against the benefits directly administered by the Department;
  - the efforts to tackle fraud in Housing Benefit, administered by local authorities.
- 6 The main elements of our fieldwork were:
- visits to the Department's anti-fraud teams to examine local practices at first hand;
  - contact with other organisations with an interest in the Department's work, such as the Audit Commission, and other Government Departments;
  - advice from expert consultants on specific aspects of the Department's work (the measurement of fraud, risk management, prevention and investigation);
  - examining experience and practice of other organisations in the United Kingdom and overseas;
  - a survey of joined-up action against fraud across government;
  - two advisory groups, to comment on our methodology and findings, with representatives from public and private sector organisations with an interest in tackling fraud.

The methodology we used is set out in more detail in Appendix 1. This report complements similar studies about tackling fraud in HM Customs and Excise and the Inland Revenue. It also takes account of previous National Audit Office reports on benefit fraud<sup>1</sup> and reports by the Committee of Public Accounts<sup>2</sup> and the Audit Commission<sup>3</sup>.

1 *Department of Social Security - Departmental Resource Accounts 2000-2001, HC 491 2001-02; Department of Social Security: Measures to combat Housing Benefit Fraud, HC164, 1997-98; and Department of Social Security: Progress on measures to combat Housing Benefit fraud, HC319, 1998-99.*

2 *Measures to Combat Housing Benefit Fraud, Committee of Public Accounts, 27th Report 1997-98, HC 366.*

3 *Fraud and Lodging: Tackling Fraud and Error in Housing Benefit, July 1997 and Fraud and Lodging: Progress in Tackling Fraud and Error in Housing Benefit, April 1999.*

## Main findings

### On tackling fraud in benefits administered by the Department for Work and Pensions

#### Progress in reducing the level of fraud

- 7 The Department have concentrated on reducing fraud and error in the areas of greatest loss - Income Support and Jobseeker's Allowance. They have also devised a method of estimating the level of fraud and error in these benefits. For April 2001 to March 2002, the estimated level of loss was 6.8 per cent of expenditure, around £1.15 billion. This is around a quarter less than the baseline in 1997-98, when the loss was estimated at 9.0 per cent of expenditure, which would be equivalent to £1.55 billion at 2001-02 levels of benefit expenditure. The Department have therefore outperformed their first Public Service Agreement target to reduce the level of loss by 10 per cent by March 2002. The level of loss due to fraud alone was 4.1 per cent (£700 million). In 2002 the Department announced a revised Public Service Agreement target, to take effect from April 2003. This is to reduce the loss for customers of working age from Income Support and Jobseeker's Allowance by 50 per cent by March 2006, with a more demanding intermediate target of a 33 per cent reduction by March 2004. The Department have also set a target to reduce loss in Pension Credit, which will replace Income Support for pensioners from October 2003, by 20 per cent by 2006.
- 8 Progress to date has been encouraging. But achieving the 50 per cent target reduction by 2006 remains challenging as the rate at which the Department are reducing the level of loss has slowed in the last year. The experience in regions also suggests that those with lower levels of fraud and error have found it more difficult to make significant inroads.

#### Constraints in tackling fraud

- 9 The Department are having to manage the effects of major organisational change, arising from the introduction of Jobcentre Plus and The Pension Service, with new regional structures and new processes for interacting with customers. The complexity of benefit regulations and inadequate computer systems will also continue to be important constraints on the Department's capacity to reduce fraud and error. The Department are working to update their information systems and information technology strategy. They aim to draw on previous experience of implementing major information technology projects and wider experience of other organisations. But successful implementation will depend on the Department overcoming the difficulties inherent in implementing computer systems on such a large scale.



### Preventive checks on benefit claims

**10** The Department have sought to prevent fraud by strengthening the initial checks by frontline staff on all new claims and on the identity of customers. Since 1997, the Department have carried out each year additional checks, known as interventions, on over a million new claims or claims already in payment which carry a higher risk of fraud and error. The number of interventions fell by 20 per cent in 2001-02. Nevertheless, the Department have gradually improved the targeting of these checks, increasing the average reduction in benefit paid each week for those cases where errors were identified. Around one in six checks now result in error being identified, although performance varies between regions, some of which will be inevitable because of local conditions. As an illustration of the potential benefits, we estimate that if all regions had performed in 2001-02 at the standards of those in the upper quartile, they might have achieved a 12 per cent increase (13,600 more cases) nationally in successful interventions that year, with a 22 per cent (£440,000) increase in the total weekly reduction in benefit from removing customer errors. The Department have set up a performance improvement initiative to examine the causes of regional variation and to identify and target good practice. In addition the Department are introducing improved plans and management indicators in 2003, aiming to reduce regional performance variations and significantly increase the number and value of successful interventions. These initiatives should help point to the extent of performance improvement achievable within each region.

### Changing people's attitudes to fraud

**11** To prevent and deter further fraud, the Department have embarked on a long term publicity campaign to change people's attitudes on the social acceptability of benefit fraud. The early results are encouraging, and the Department intend to keep the campaign under review to maintain its focus on likelihood of detection and fear of being caught.

### Fraud investigations

**12** The Department are notified of suspected cases of fraud from a variety of sources such as tip-offs, case reviews and computer checks. The Department receive around 16 per cent more referrals than they can investigate with current resources. Tighter management of investigations, together with better targeting through the Operational Intelligence Units, could help reduce this overload.

**13** Of the 390,000 cases of suspected fraud accepted for investigation in 2001-02, around 41 per cent (161,000) resulted in an adjustment to benefit and/or the identification of an overpayment. But there was a general reduction of around 12 per cent in the number of cases investigated between 2000-01 and 2001-02 and in the number of investigations finding evidence of benefit or instrument of payment fraud or error. This has led to a reduction in the overall value of fraud detected, although the average value of fraud detected increased.

**14** It is not entirely clear why there has been a reduction in the number of suspected frauds investigated. It may reflect the changes to the regulatory framework within which investigators must operate to comply with the law, which has an impact on the deployment of resources. It may also be due to a desire by Regions to focus on investigating only those cases where suspicions are based on good quality intelligence and that are in line with Departmental priorities, rather than maximising the number of investigations carried out. The Department are addressing the issue of the reductions in intervention and investigation activity through a performance improvement initiative to help ensure that further progress towards their targets to reduce losses is not jeopardised.





- 15 There are significant variations between regions in the value of detected frauds and in their targeting of investigations. These suggest that further improvements can be achieved, although some variation will be inevitable because of local conditions. As an illustration of the potential benefits, we estimate that if all regions had performed in 2001-02 at the standards of those in the upper quartile, they might have achieved an eight per cent increase in the number of investigations that detected fraud (a further 12,300 cases) that year. Assuming this corresponded to an eight per cent increase in monetary savings, the approximate value of such an increase could have been a further £418,000 weekly reduction in benefits paid and a further £9.5 million in the value of fraudulent overpayments detected. Full implementation of the Department's new intelligence-led approach to selecting cases for investigation, by the end of 2003, should bring further improvements. The Department plan to introduce indicators in 2003 aimed at reducing regional performance variations and significantly increasing the number and value of successful investigations. These initiatives should help point to the extent of performance improvement achievable within each region.
- 16 The Department have introduced a number of initiatives to improve the standards of fraud investigation across the country. The Department have developed a tool, the Programme Protection Assessment Mechanism, to help regional investigation teams assess their performance against good practice. The Department do not monitor centrally the time taken to complete investigations, but they are developing a computer system to track investigations and are reviewing the management of investigations to identify good practice.
- 17 It is important that people who are suspected of fraud are treated fairly and that investigations are properly controlled to inspire public confidence. A small number of customers subject to investigation have expressed their concerns to Citizens Advice about the conduct of fraud investigators, including intimidation, offensive language, failure to communicate required information and inappropriate means of evidence gathering. The Department have set up a Professional Standards Unit to provide support, guidance and training. The Unit inspects whether investigation teams operate professionally, effectively and within the law. They also expect all their fraud investigators to become professionally qualified during 2003.
- 18 Since 2001 the Department have embarked on a new form of investigation, working jointly with the Inland Revenue and HM Customs and Excise to pursue traders and others operating in the shadow economy who may be committing tax and benefit frauds. The returns in terms of frauds identified compare favourably with the Department's traditional investigations. The Department for Work and Pensions are continuing to work with the other Departments to overcome practical operational constraints, which arise from the fact that they have different powers and different policies. All three Departments are working together to promote wider awareness of joint working activities to generate more and better intelligence and referrals.

## Sanctions against fraudulent customers

- 19 Where the Department uncover fraud, they reduce or withdraw the benefit, and seek to recover the amount defrauded. In around 15 per cent of cases they also impose a sanction on the customer in the form of either a caution, an administrative penalty (a fine) or prosecution. Administrative penalties are quicker and simpler to apply than prosecuting cases in court, but the Department currently restrict their use to frauds below £1,500, a limit which has not increased since 1997. The Department are currently reviewing this limit to consider whether raising it would give valuable flexibility in deciding the best form of sanction in borderline cases. Around eight per cent of cases go to prosecution, and the Department and their agencies achieve a success rate of over 98 per cent. Many result in conditional discharge, community punishment or fines, reflecting the sentencing guidelines for magistrates.

## On tackling fraud in Housing Benefit

### Progress in reducing the level of fraud

- 20 The Department have made progress in improving the standards of Housing Benefit administration and anti-fraud work of local authorities. However, there remain significant deficiencies in the standards within some local authorities. Achieving the Public Service Agreement target to reduce fraud and error by 25 per cent by 2006 will require the Department to make further progress in tackling long established weaknesses.
- 21 The Department will monitor progress towards the target through six monthly estimates of the level of loss. The Department's most recent estimate that Housing Benefit fraud may cost up to £500 million is based on an extrapolation from data collected in 1997-98. The Department set about introducing the continuous measurement of Housing Benefit fraud and error from April 2001. The Department's timetable for introduction did not include a pilot phase nor opportunity to test the supporting information technology. Consequently it was only during the Department's review in September 2001 that they identified problems with the information technology, the survey methodology, and the adequacy of training and guidance. The Department worked to implement solutions with the aim of obtaining a full year's valid results for 2002-03.

### Progress in reducing the complexity of Housing Benefit fraud

- 22 The complexity of the Housing Benefit scheme is widely acknowledged as a major factor in poor local authority administration and the resulting risks of fraud and error. Although a government review in 2000 proposed partial simplification as a first step, in practice the scheme has become more complex with many changes, aimed largely at improving financial control. Complexity, and financial pressures, are likely to be factors in the deteriorating service provided to customers. The Department have provided additional support and resources to local authorities to tackle these problems. In addition, they announced plans for Housing Benefit reform in October 2002.<sup>4</sup> This contained a number of simplifications to the existing system as well as proposals for fundamental reform. The Department expect these to help simplify administration for local authorities, speed up claims processing and make the scheme easier to understand for customers.



<sup>4</sup> "Building choice and responsibility: a radical agenda for Housing Benefit", Department for Work and Pensions, 17 October 2002



### Implementation of the Verification Framework to improve fraud prevention

**23** Since 1998 the Department have encouraged local authorities, with additional funding, to implement a Verification Framework, a major initiative to improve controls in preventing fraud. The Framework sets out minimum standards for checking customer information in Housing Benefit claims. The Department decided against making the Framework mandatory in view of the overall burdens of change placed on local authorities. So far, 301 authorities are compliant, or on track to be compliant by April 2003, accounting for some 72 per cent of Housing Benefit expenditure. The Department developed a modular approach, introduced in 2002 to facilitate take-up by the remaining authorities. The Department will increase Verification Framework funding to local authorities by 50 per cent from April 2003 to respond to local authorities' concerns about the costs of implementing the Framework. The Department consider that at least 25 further authorities will be compliant in one or two of the three modules by April 2003. In total £223 million is available for the next three years from April 2003. The Department have committed to a full implementation by 2006, eight years after they introduced the framework.

### The Department's anti-fraud subsidy scheme for local authorities

**24** Funding has been a longstanding cause of tension in the Department's relationship with local authorities, with authorities seeking what they consider adequate recompense for the costs of administering the benefit and tackling fraud and the Department keen to secure value for money when faced with very variable standards across the 408 authorities. The Department are seeking to engender a new spirit of partnership by supporting authorities in driving up standards and providing significant additional funding to help them achieve this.

**25** A major feature of this new approach is the performance standards developed by the Department in collaboration with local authorities and organisations involved in Housing Benefit administration. The standards enable authorities to assess their benefit administration and anti-fraud performance, and will form the basis of future inspections by the Benefit Fraud Inspectorate. The Department have allocated £200 million over three years to help authorities meet these standards, but they did not impose a deadline for meeting the standards across all authorities due to the enormous variations in local authority circumstances and current performance. However, achievement against the standards is part of the Best Value performance framework, and its five-year timescale.

**26** The Department introduced a new subsidy scheme to fund local authorities' anti-fraud work from April 2002, which seeks to rectify the serious flaws that existed in the previous scheme. The Department considered that the ideal arrangement of measuring individual authorities' success in reducing fraud and error as a whole (which could involve a national sample size of around 400,000 cases), would have been prohibitively expensive. Therefore, the new scheme rewards authorities for finding and acting on individual instances of fraud and error. The new scheme aims to promote a better balance in local authorities' use of fraud prevention work and sanction against fraudsters. Parallel running of schemes in 2001-02 resulted in low take up of the new scheme. In response the Department made adjustments to the funding criteria.



### Housing Benefit fraud investigations

- 27** Successive reviews have highlighted concerns over the quality and extent of local authority fraud investigation work. Local authorities detect around £95 million of fraud each year, compared with the Department's most recent estimate that the total level of Housing Benefit fraud may be as much as £500 million. The raw data show a fall in the number of frauds detected, although the Department consider this could be wholly or partially explained by a tightening of the definition of fraud for the purposes of successive incentive schemes.
- 28** There are signs that local authorities are targeting their efforts on higher value cases, and that effective fraud detection methods are being used to a greater extent. Data-matching services provided by the Audit Commission and the Department have increasingly helped local authorities in detecting fraud and error. Some £24 million in fraud and error was detected from the Audit Commission service alone in the 2002 exercise, a 60 per cent increase from two years previously.
- 29** Authorities have also made progress in improving the professionalism of their fraud investigations. The Department have made funded professional training in fraud investigation available to local authorities. Currently 80 per cent of the 1,650 local authority investigators have commenced the accredited training, and 58 per cent have completed the programme.

### Joint working with local authorities

- 30** Many people claiming Housing Benefit also claim benefits from the Department for Work and Pensions. As various rules of entitlement on Housing Benefit are the same as for Income Support and income based Jobseeker's Allowance, good collaboration between Departmental and local authority teams is essential, particularly in tackling fraud. But previous attempts to improve joint working have had limited success. The Department have responded to this through their Joint Working Unit, set up in 2001, to improve the exchange of information, joint work and spread good practice. They also have an action plan to tackle weaknesses in joint working. The Department have established boards to bring key players in Jobcentre Plus regions and local authorities together more regularly to lead on fraud strategy and operations in the regions.

### Sanctions against fraudulent customers

- 31** Historically, many local authorities have done very little to penalise fraudsters. For example in 1998-99, out of some 204,000 detected frauds, local authorities pursued around 800 prosecutions (less than one per cent). In 2001-02, when the Department introduced a subsidy of £2,000 for each successful prosecution and made professional training available, there has been a trebling of prosecutions from 1998-99 levels. The increased financial reward was introduced in the light of a near three year long trial (between end-1998 and mid-2001) in offering local authorities the direct use of the Department's legal services. This showed that there was limited demand for such a facility among the larger authorities, which preferred to develop their own in-house legal expertise. However, the Department have now begun to make their legal services available nationally for the benefit of smaller authorities.

# Overall conclusions and recommendations

**32** Our main conclusions are summarised below, and are followed by a detailed list of recommendations.

- Benefit fraudsters will take advantage of opportunities to claim benefits to which they are not entitled if it seems worthwhile for them to do so, in other words when the gain from cheating outweighs the risk of detection and the likely penalty.
- The Department have a set of programmes that are designed to make fraud more difficult to commit (i.e. prevent fraud), increase deterrence, increase the probability of frauds being detected and increase the penalties for committing fraud.
- These programmes have produced some good results. But more needs to be done to:
  - Concentrate on existing known areas of higher risk and to assess emerging risks;
  - Address the decline in the level of the Department's fraud prevention and investigative activity;
  - Raise regional performances closer to the level of the best, through more detailed analysis of the causes of variation, and through dissemination of good practices;
  - Evaluate the deterrent effect of the different sanctions available;
  - Assess the effects of recent initiatives on Housing Benefit fraud to ensure these are achieving expected improvements in local authorities' benefit administration and anti-fraud work.

# Overall conclusions and

## On estimating the scale and nature of fraud:

- a Reliably estimating the level of fraud is an essential feature in assessing the effectiveness of the Department's activities to tackle fraud. Developing and implementing a planned programme of reviews for other benefits, as recommended by the Committee of Public Accounts, and with regard to the resource involved in implementing their plan, would help inform the Department of the relative risks involved and further action needed to tackle fraud in these benefits (paragraph 1.15).

## On preventing and detecting fraud in the benefits administered by the Department:

- b Extra checks on new and existing claims with a higher risk of fraud are an effective means of preventing fraud. However, there is considerable variation in the performance of the Department's regions in preventing fraud. The Department should both encourage regions to continue to innovate and stimulate the wider adoption of good practice from regions with greater success in this checking process. Such good practices include developing and using knowledge of local factors when selecting cases for additional checks and developing specialist skills in staff to carry out different types of checks (paragraphs 2.34 and 2.35).
- c Recognising the varying degrees of progress by regions in reducing fraud and error, the Department are trying to identify the reasons and good practices which could be promoted more widely. Our analysis of the variation in results of fraud prevention and investigation activity suggests further improvement can be made by bringing the performance of regions closer to that of the best, while recognising that completely uniform performance is not realistic. The Department should both encourage regions to continue to innovate and stimulate the wider adoption of good practice, particularly in the targeting of checks, drawing on the good practices identified in Figure 21 of this report. They also need to continue monitoring regions' compliance with recent initiatives and guidance to ensure the full gains are realised (paragraphs 2.36, 2.62, 2.66 and 2.70).
- d The information currently collected by the Department does not give a sufficiently clear view of whether regions' performances on interventions and investigations are improving or not. Nor can the Department track the outcomes of fraud referrals accepted for investigation within each year, but only count overall activity within each year. This demonstrates a gap in the Department's management information, which they are seeking to address. The Department do not collect cost information in sufficiently reliable detail to determine actual spending on such activity. The Department should consider refining the performance measures used on the value of frauds prevented or detected, to take account of the timescales that frauds have gone, or would go, undetected. The Department should consider how they could collect such information to enable them to compare the relative costs and benefits of different approaches adopted by regions, and determine the potential for improvement. This will be important in assessing the relative impacts of intervention and investigation activities on levels of fraud and error, and the desirability and scope to increase the level of fraud prevention and detection activity (paragraphs 2.37, 2.46, 2.53, 2.56, 2.60 and 2.61).

# recommendations

- e The early results of the Joint Shadow Economy Teams' investigations are encouraging and the Department are working with others to address the various practical constraints to improve their effectiveness. As the work of the Teams grows, the Department should look at publicising this work more widely to generate further interest and intelligence on suspect cases from the public (paragraph 2.75).

## On imposing sanctions against those found committing fraud against the benefits administered by the Department:

- f The Department last researched the effect of sanctions on fraudsters in 1997, when administrative penalties were first introduced. The Department should consider updating this research to assess the deterrent effect of the different sanctions used by the Department (paragraph 2.83).
- g Prosecution of fraudsters can be a lengthy and complex process. Cautions and administrative penalties are quicker and simpler sanctions to apply. However, the Department's policy is to restrict the application of these sanctions to frauds below £1,500 and this limit has not been increased since 1997. Raising it would allow the Department greater flexibility in using cautions and penalties as alternatives to prosecution in borderline cases. This option should be considered as part of the wider research on sanctions recommended above (paragraph 2.81).

## On Housing Benefit fraud:

- h The local authority performance standards set by the Department, and the additional funding, provide an opportunity to make significant improvements in benefit administration and in arrangements to tackle fraud and error. The Department should continue to monitor closely local authorities' progress towards the standards (paragraph 3.21).
- i The Department need to continue to evaluate the results of the new anti-fraud subsidy scheme to ensure that targets for individual local authorities are challenging but achievable. The Department should also review whether the incentives and rewards for prevention, detection and prosecution activity are achieving improvements in the scale and quality of local authority activity (paragraphs 3.29 to 3.36).
- j The Department need to ensure more effective and extensive joint working with local authorities through their accountability arrangements with regional directors. They should monitor the adoption of the standards in the Fraud Partnership Agreement to avoid a recurrence of the failures in previous agreements (paragraphs 3.50 to 3.51).
- k The Department should continue to encourage improved standards in the conduct of fraud investigations, including promoting the adoption of professional fraud training for local authority investigators (paragraphs 3.37 to 3.43).