



National Audit Office

DEPARTMENT FOR WORK AND PENSIONS
Dealing with the complexity of the
benefits system

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EXECUTIVE SUMMARY



1 The Department for Work and Pensions, including its agencies, aims to relieve poverty by helping people find work, provide assistance during sickness and disability, and help people to support their children and plan for retirement. It is a highly complex organisation with millions of customers and a wide range of responsibilities and relationships (**Box 1**). As part of the efforts to fulfil its aims, they administer around 40 benefits, allowances and grants to a wide and diverse population. Many of the benefits are linked together (**Figures 1 and 2**). The benefit system has evolved over time and the majority of the population will have some contact with it during their lifetime. Many of the Department's activities involve routine and repetitive transactions of the type where the Government sees potential for efficiency savings.

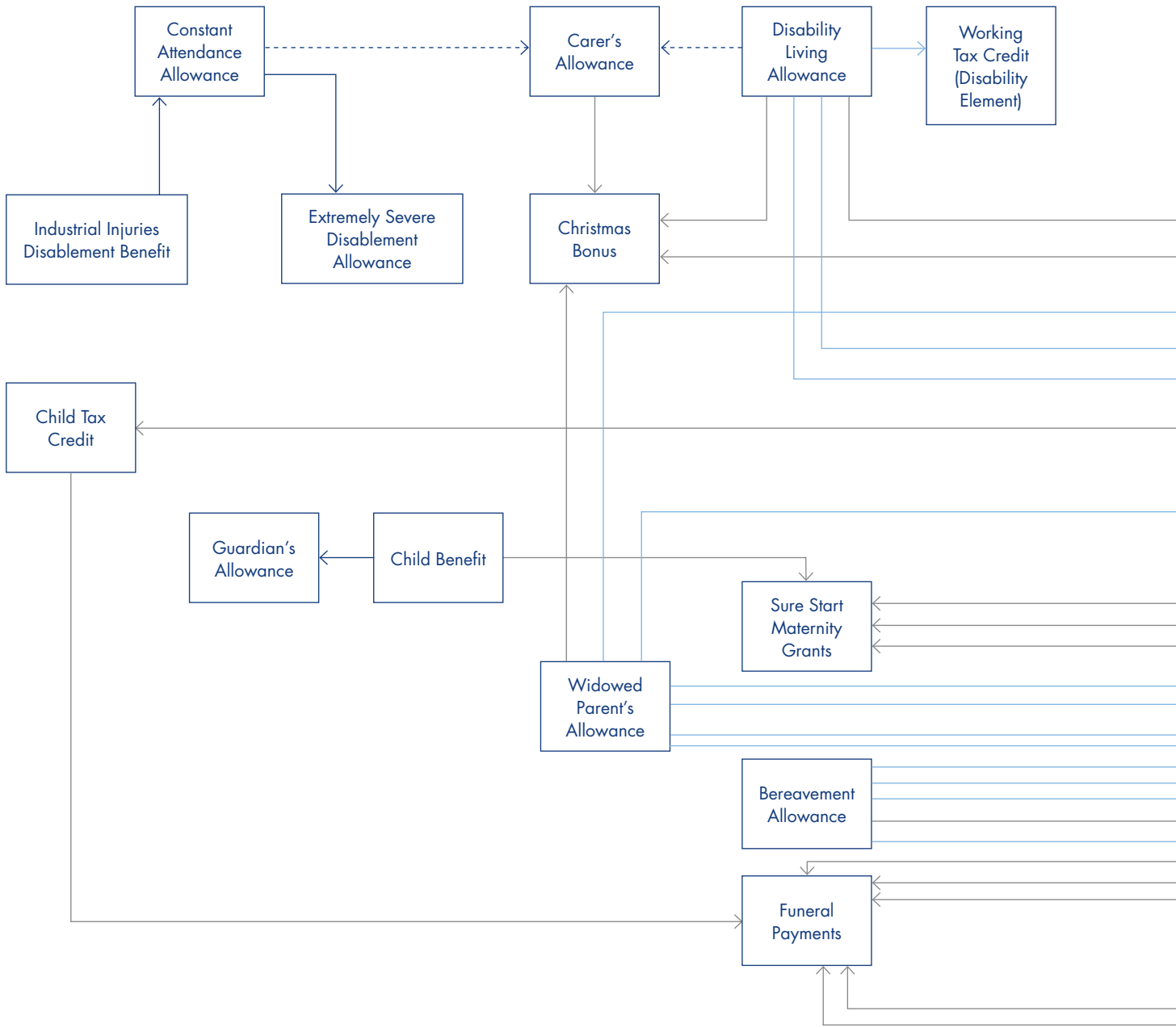
2 To meet the needs of people in a wide range of circumstances and enable the Department to pursue its policy objectives, benefit legislation and supporting regulations are inherently detailed. This also allows the Department to pursue the objective of equity and fairness between individuals in the same or differing situations. It is also to be able to provide incentives (for example, to encourage people to work) and rewards (for example, recognising savings in the design of Pension Credit), as well as meet specific needs through careful tailoring of the rules. Detailed rules also determine more clearly who is eligible for benefit and allow the Department to seek to achieve its aims in a cost effective manner. Thus, for example, certain benefits take account of individuals' income and capital levels to allow the state to direct funds towards those most in need.

BOX 1

The Department for Work and Pensions is a highly complex organisation

- Pays more than £100 billion a year in social security benefits and pensions
- Around 30 million people in the United Kingdom receive income from at least one social security benefit or pension
- The Department's IT supplier EDS processes more than 60 million outputs (cheques, direct payments etc) each month
- The Department has 35 major IT systems
- 36,000 staff are employed in Jobcentre Plus, The Pension Service and the Disability and Carers Service processing benefits
- Handles more than 200,000 appeals a year against benefit decisions
- Conducts up to 36,000 work-focused interviews a day and employs 10,000 Personal Advisers to help people seek work

1 Working age benefits diagram



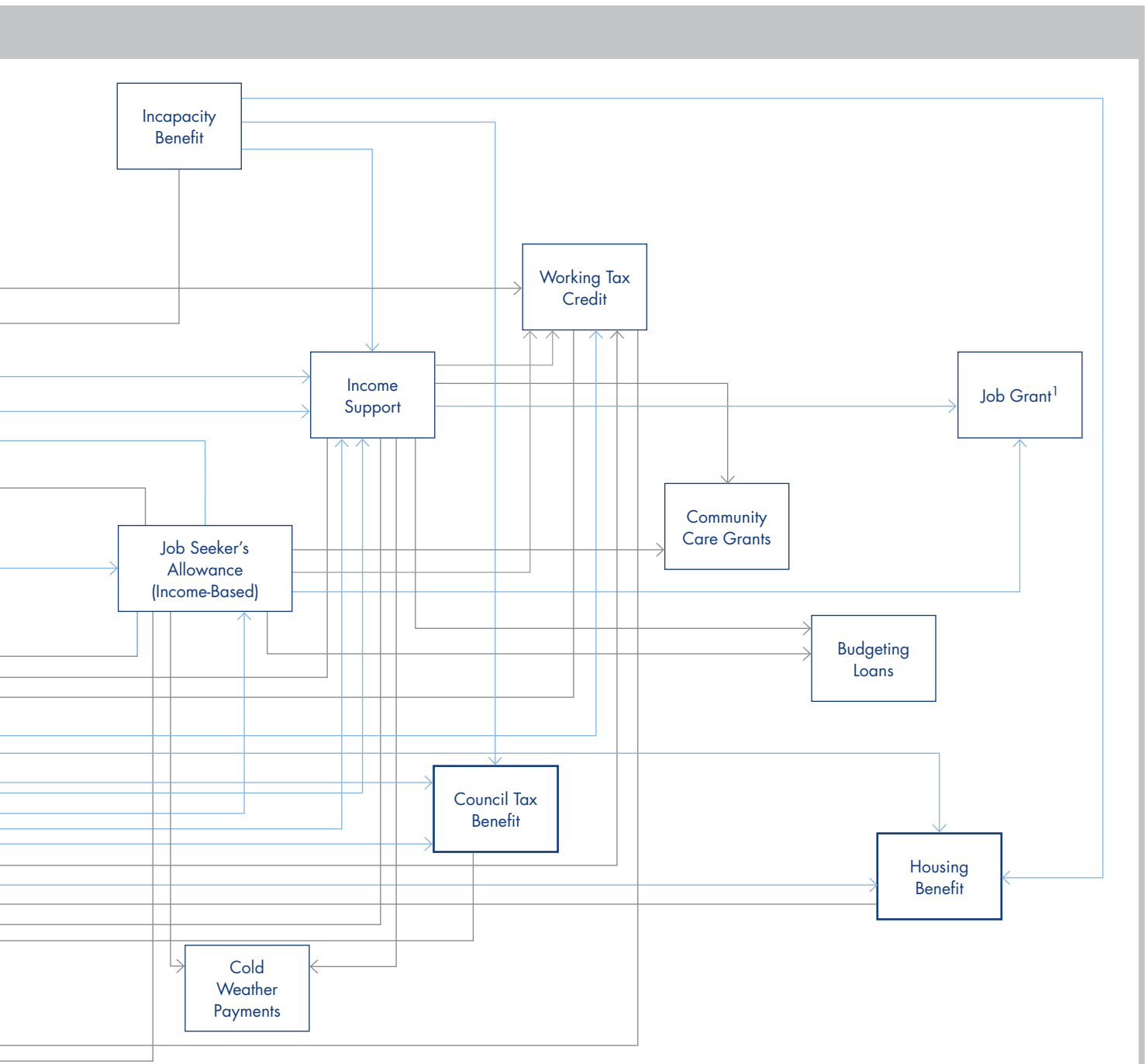
Key

- X —————> Y Receipt of X can make claimant eligible for Y, subject to means-test and other eligibility tests as applicable
- X —————> Y Receipt of X can make claimant eligible for Y, (subject to means-tests and other eligibility tests as applicable), although there are alternative routes (X) to benefit Y

Source: *Welfare Benefits and Tax Credits Handbook 2004/2005*. Child Poverty Action Group, 2004. pp 873

NOTE

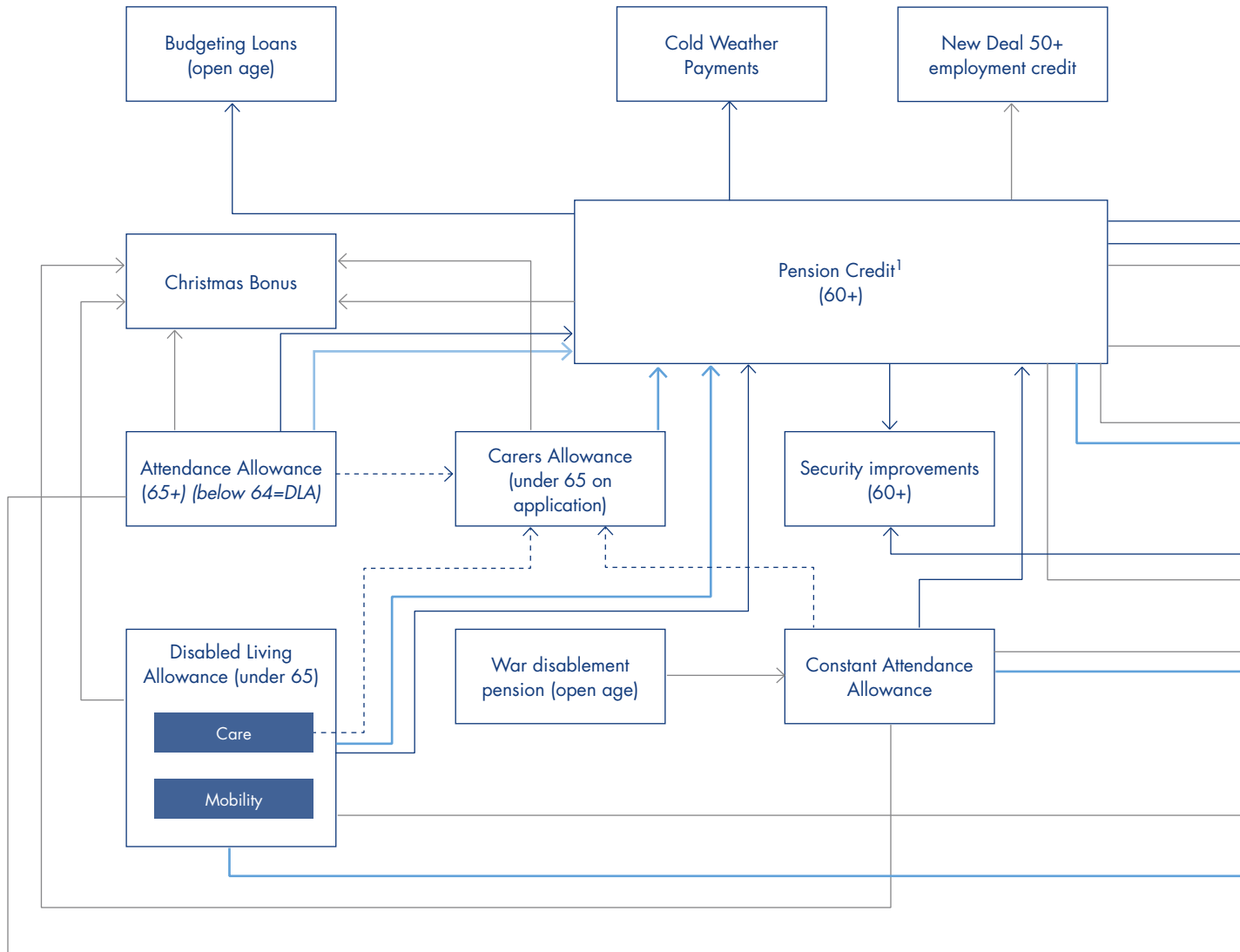
1 Job Grants are payable to people who move into work and who previously received JSA, IS, IB.



- X → Y Receipt of X can make claimant eligible for a higher rate of Y
- X - - - - -> Y Disabled person must be receiving X for carer to receive Y.
- Administered by Local Authorities

Unlinked Benefits:
 JSA Contribution-Based
 Crisis Loans
 Bereavement Payment
 Maternity Allowance

2 Benefit Linkages for the Over-50's



Key



Receipt of X can make claimant eligible for Y, subject to means-test and other eligibility tests as applicable



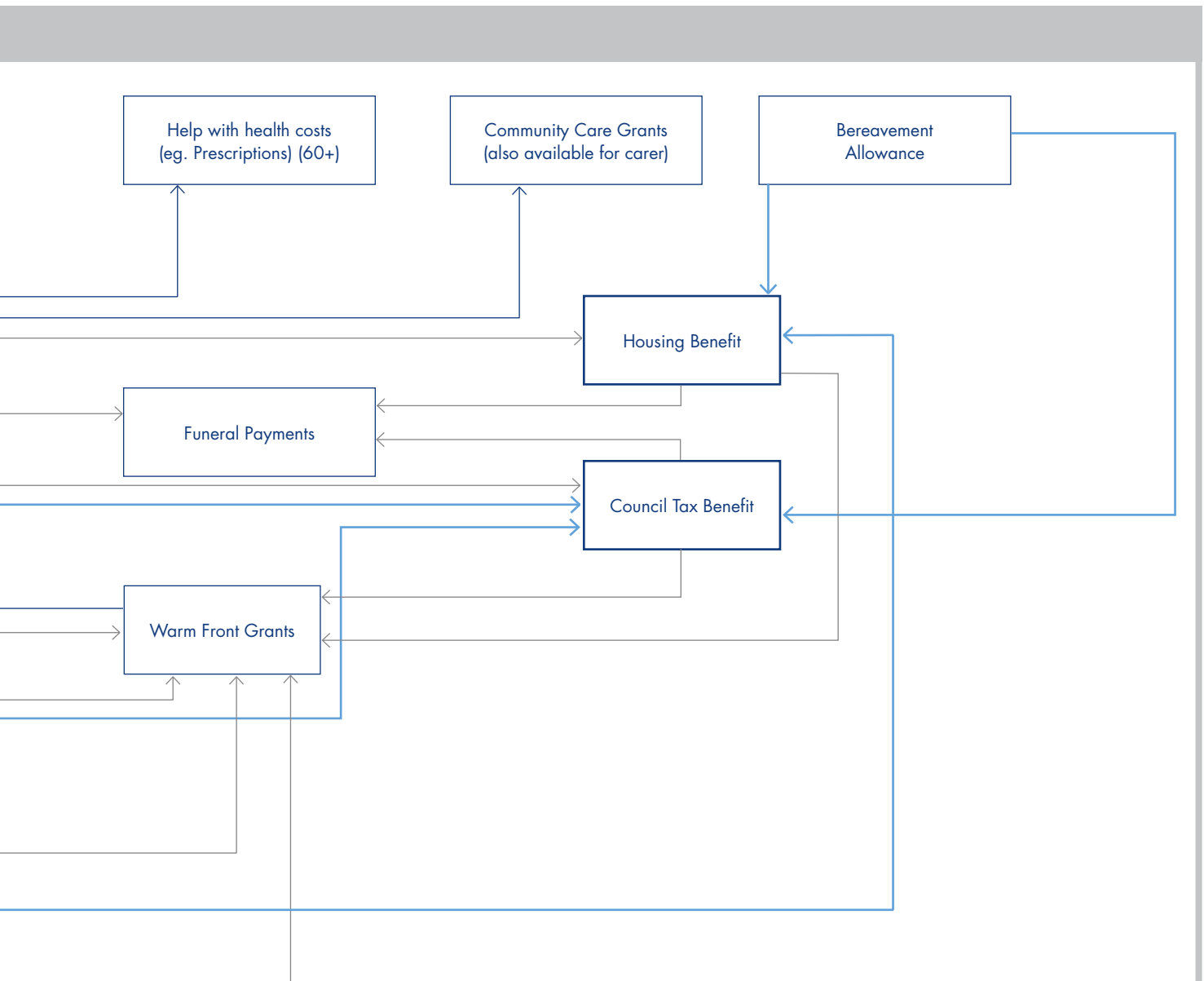
Receipt of X can make claimant eligible for Y, (subject to means-tests and other eligibility tests as applicable), although there are alternative routes (X) to benefit Y

Unlinked benefits

- Home improvements (60+)
- NHS Low Income Scheme
- Winter Fuel Payment (60+)
- Free TV license (75+)
- Driving License (£6 for three year license – 70+)

NOTE

1 Pension Credit has 2 components. The Guarantee Credit which is designed to guarantee a minimum income for those aged 60 or over, and a Savings Credit which rewards those aged 65 and over for having saved for their retirement.



X → Y Receipt of X can make claimant eligible for a higher rate of Y

X - - - - -> Y Disabled person must be receiving X for carer to receive Y.

□ Administered by Local Authorities

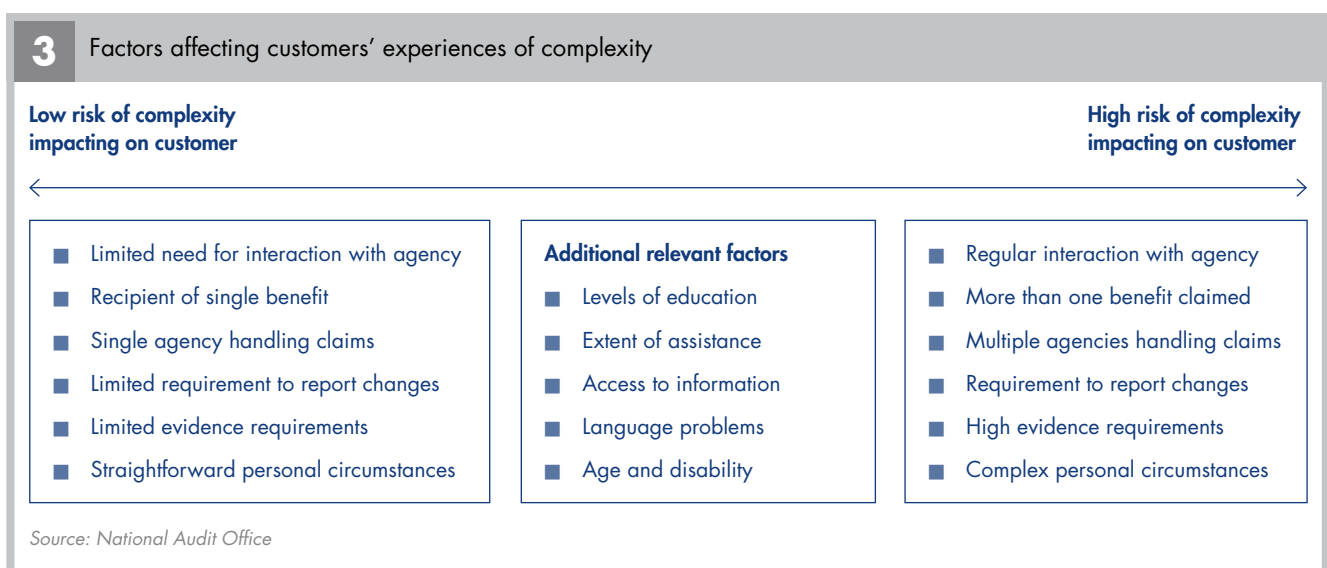
3 Many people’s dealings with the benefits system are uncomplicated and their needs and circumstances are straightforward. After initial contact, benefits or pensions may be paid without much further interaction with the Department, although customers must report changes of circumstances, and Jobseeker’s Allowance customers, for instance, are required to show they are actively seeking work. Nevertheless, for many others, the benefits system is seen as highly complex and problematic (**Figure 3**). The concept of the complexity of the benefits system has been a matter of long-standing concern to the Government, as well as the Committee of Public Accounts, the National Audit Office and others including the House of Commons Work and Pensions Select Committee. There is almost universal agreement that complexity exists and is perceived as a problem, and in the National Audit Office’s opinion, it is perhaps one of the most important issues impacting on the performance of the Department. For the last 15 years, the Comptroller and Auditor General has given a qualified audit opinion on the accounts of the Department for Work and Pensions and previously, the Department of Social Security. In part, this is due to the extent of errors in the payment of benefits – much of which is generated by the complexity of the system.

4 Complexity is not a new issue and the current benefits system is an accumulation of years of legislative change. Starting in the early 20th century, it has evolved, adjusting to changing social and economic circumstances and political orientations, as well as expanding to meet new needs. Successive Governments have advocated simplification, including in the Department’s latest Five

Year Strategy, published in 2005, which also recognised that this will not necessarily save money because, for example, in designing changes, the Department needs to avoid worsening the position of current customers. Nevertheless, simplification can have a range of potential benefits (**Box 2**). One of these is greater efficiency. This comes at a time when, following the 2004 Gershon Review, the Government is seeking to increase efficiency in administration more generally, which gives an added impetus to efforts to simplify transactions with the public.

5 Simplification is not an easy option. Radical reform is a rare, costly, time-consuming, and potentially controversial act. Even when such reform is agreed, the process from consultation through to changes in primary legislation may take several years. Thus, simplification requires consideration of trade offs, including between:

- anticipated increased administrative efficiency (which may not be delivered) and savings and increased programme expenditure (which is more predictable);
- a simple, non-intrusive application process and the need to avoid increased susceptibility to fraud;
- the needs and rights of benefit customers and the wider responsibilities to other taxpayers and considerations about the impact on the economy; and
- tailoring the system to meet a wide range of circumstances and the desirability of a relatively simple set of rules.



BOX 2**The potential benefits of simplification include:**

- Simpler and easier to understand
- Easier for staff to explain to customers
- Easier for customers to move into work
- Reduced information requirements
- More efficient processing of transactions

6 Against this background, we examined the issue of the complexity of the benefits system. To do this, we drew on the National Audit Office’s accumulated experience as auditor of the benefits and worked with our partners RAND Europe to consider aspects of complexity in more detail (Appendix 1). The report focuses on benefits for which the Department for Work and Pensions is responsible. This includes its interfaces with other systems, especially tax credits administered by HM Revenue and Customs, which are an important aspect impacting on complexity and are referred to where appropriate. In doing our work, we recognise that much complexity is an inevitable consequence of trying to meet the varied needs of the population and of deliberate decisions by governments on priorities and choices.

Key principles

- **Designing new benefits to deliberately reduce complexity**
- **Systematically removing anomalies and deliberately realigning provisions**
- **Simplifying customer input**
- **Simplifying processes and rationalising requirements**
- **Sharing information and avoiding duplication of effort**
- **Using technology to protect customers from complexity**
- **Making the most of external scrutiny mechanisms such as the Social Security Advisory Committee, the Department’s Audit Committees and Regulatory Impact Assessments**

7 Our examination does not question the right of Government to design the system to meet its desired objectives, but does stem from our belief that there is sizeable scope to reduce complexity for the benefit of customers and in the interests of greater efficiency. The report is designed to highlight the constraints on the Department and draw attention to the actions that have been taken (some of which are in Annex A to the Executive Summary) which help to illustrate more general principles for the future.

8 The report looks at:

- the benefits system and its development (Part 1);
- the causes of complexity (Part 2);
- the effects of complexity (Part 3); and
- what the Department has been doing to tackle problems linked to complexity (Part 4).

What are the causes of complexity?

9 A dictionary definition of ‘complexity’ is “consisting of parts or elements not simply co-ordinated, but some of them involved in various degrees of subordination; complicated, involved, intricate; not easily analysed or disentangled”. The benefits system fits this definition. It is hard to consider the benefit system as a whole because of its scale and yet the interaction of different parts makes it difficult to consider individual benefits in isolation. Thus, the complexity arises from a combination of the structural complexity of the system (the number of different, overlapping and interdependent benefits) and the complexity of individual benefits (much of which is deliberate as outlined below). More specifically, we have identified five aspects of complexity within the benefits system – (1) relating to the way the system has been designed and (2) subsequently amended, (3) the complexity generated by how different layers in the organisation work together, (4) how different benefits and parts of the organisation interact with others and (5) by the way benefits are delivered (**Figure 4 overleaf**).

4 Summary of different types of interaction in the benefits system

Type of interaction

Design changes – substantial developments in the benefits system which may occur to meet changing socio-economic circumstances or to pursue particular policy objectives.

Patchwork changes – more minor changes occur when there is a need for regulations to be adapted to changing circumstances or priorities.

Horizontal links or interfaces – exist between benefits and/or between different agencies administering benefits or other forms of support such as tax credits.

Vertical interfaces – exist between different layers of the Department and its agencies. Vertical interfaces can involve creating greater detail to tailor general rules to the more specific needs of lower levels in the organisation.

Delivery interactions – exist between the Department and the individual customer, and include filling out forms, reporting requirements, interviews, and the transfer of money. The Department has the responsibility for delivery.

Relation with complexity

- Can either increase or decrease complexity.
- May include the explicit goal of simplification of the benefits system
- Can increase complexity through the introduction of a wider range of responses to different circumstances, even when the intention is otherwise.
- Horizontal interfaces give rise to complexity when different benefits addressing the same client group are administered in different ways, either by the same or different agencies.
- Gives rise to complexity when there is a perception that higher level rules are not adequate for customer service.
- When different subordinate units implement the same higher unit guidance differently, complexity is created.
- Complexity through delivery occurs because of the way front-line services are provided – for example, multiple points of contact, detailed forms – which can place a burden on benefit recipients.

Examples

- Introduction of Jobseeker’s Allowance in 1996
- Introduction of Pension Credit in 2003
- The piloting of Local Housing Allowances as a simplification of Housing Benefit
- Separate Housing Benefit rules for under-25s
- New regulations for Disability Living Allowance to deal with complexity arising from judicial decisions
- Different paydays for different benefits
- Changes of circumstances needing to be reported at different times for benefits and tax credits, reflecting the different periods for which payment is assessed
- Housing Benefit and tax credits treating income and capital differently
- Day-to-day benefit administration governed by voluminous guidance interpreting legislation and regulations e.g. 48 chapters in the Decision-Makers’ Guide
- Housing Benefit administered to widely varying standards by local authorities with decisions reflecting local circumstances
- Many customers consider claim forms hard to complete
- Customers may be unclear what changes of circumstances they need to report and to whom

10 A significant amount of the benefit system is complex in order to meet policy intent and to safeguard it against abuse. Much complexity is there as a deliberate consequence of the philosophies and objectives behind the benefits. This is as a result of successive governments seeking to develop a rule based system that is equitable and accessible and at the same time, safeguarding the system against abuse. Governments have also attempted to tailor regulations to the variety of human life in a population of 60 million people. This includes changing

family income levels and structure, different residential arrangements, varying working hours and fluctuating states of health. The scale of change is also a factor. Between 2000 and 2004, there were six new Acts and 364 new statutory instruments affecting the law on social security. In addition, the incremental addition of regulations and their interaction with current ones can add to the complexity. Individually, they may make sense, but the cumulative effect can be to create overlaps and ultimately confusion for some.

11 Income-related benefits such as Income Support are complex because they involve detailed rules on entitlements, catering for a wide range of circumstances. The complexity of a benefit like Disability Living Allowance arises because it is necessary to assess what care and mobility needs an individual has as a result of an illness or disability. These needs are personal and vary considerably between individuals. This assessment requires a decision about eligibility, based on medical and other evidence, as well as taking account of legislation and emerging case law. Other elements add to the complexity of the system. For example, to ensure that customers are not disadvantaged during the implementation of changes, ‘transitional protection’ may need to be built into the calculation of benefits. This requires staff to be aware of these additional rules and when or for what period they need to apply these exceptions to individual customers.

12 Incremental small scale changes can add to the complexity. Major reforms of benefits are relatively rare, but smaller scale, specific changes to rules are common. Such ‘patchwork’ changes will inevitably give rise to adjustments in the rules governing eligibility, with a need to revise staff guidance and communicate these changes to customers. They may occur, for example, where there has been amendment to another benefit, which requires consequential changes; where case law forces a change to regulations; or where there are new priorities such as improving interactions with customers. Case law, derived from decisions by the judiciary and Social Security Commissioners¹, can change and usually widen the interpretation of legislation, particularly where terminology in regulations is open to different interpretations.

13 The way some benefits link up with each other or other forms of assistance also adds to the complexity. Horizontal interactions between benefits include passporting (where receipt of one benefit automatically leads to eligibility for another award), premiums (where receipt of one benefit automatically makes a customer eligible for a higher rate of another); and income

interactions, where income from one benefit can be taken into account when calculating entitlement for another. The interaction between the benefits and tax credit systems and the organisations administering them, and links with the system for providing child maintenance through the Child Support Agency, add further complexity. For example, people need to report a change of circumstance at different times and to separate organisations for tax credits and Housing Benefit/Council Tax Benefit.

14 Complexity can increase as legislation is delegated for implementation at local level. Vertical interfaces occur going down the management chain. For example, local level staff are provided with detailed practical guidance in order to help them to interpret high level regulations, expressed in legal language. When responsibility for administration is delegated to a network of local operational sites, for example in the case of the Social Fund, complexity can arise due to different local offices interpreting guidance and administering the benefits in different ways, even when this happens for good reasons. For example, different housing markets may lead to diversity in the decisions made by the Rent Officer, and therefore different local outcomes for some Housing Benefit customers. The overall result can be differences, which adds to complexity.

15 Complexity in the delivery of benefits can arise as a consequence of the complex nature of the benefits themselves. Complex benefits can generate increased problems for benefit administration. For example, the forms to be filled out can be detailed and require much personal information and may not be well organised.² The complexity of benefit administration is increased in some instances by organisational problems within the Department – for instance, the current parallel running of separate systems for child support. As a result, the workarounds introduced mean that staff must access IT systems separately to gather information and undertake assessments manually. This generates duplication and increases the risk of error.

1 Social Security and Child Support Commissioners are special judges appointed by the Queen. They decide appeals on points of law from Appeals Service tribunals in cases relating to social security, tax credits, child support, housing benefit and council tax benefit.

2 NAO (2003): Difficult Forms, HC 1145, 2002-03.

The effects of complexity

16 Complexity can lead to administrative errors by both staff and customers and may facilitate fraud.

Complexity affects the experience of those administering and claiming benefits in a variety of ways (Figure 5), although it is important not to assume that all problems with the benefit system relate to its complexity, or to allow complexity to be used as an excuse for poor performance which may occur for other reasons. Payment errors may also arise, for example, because of failures in training or problems relating to inefficient IT, rather than the benefit system.

17 The processing of benefits requires the collection of evidence, interpretation of facts, application of rules and use of judgment. Errors can be generated by both staff and customers, at least in part because of complexity. For example, staff may not take into account all the facts relevant to a claim; one of the most common cases is overlooking eligibility for severe disability premium in Income Support. Errors by customers and staff can result in inaccurate benefit payments, which can be either an under or over provision of entitlement. Customers may misunderstand rules on evidence requirements or provide inaccurate information. Detailed rules on reporting changes of circumstance lead to some customers being unaware of when to provide updated information. On these occasions, the Department considers there is no evidence of intent. Complex regulations may also make the system vulnerable to deliberate action by customers to falsify their circumstances or deliberately fail to report changes accurately or on time. In these cases, the Department categorises the customers' intent as fraud. In 2004-05, the Department estimated that this amounted to around £900 million. There is no evidence to establish to what extent this was due to the complex system.

18 In complex environments, official decisions are vulnerable to challenge and appeals linked with the uncertainty and misunderstandings may result. Around 20,000 cases a month – around 1 per cent of all decisions – go to appeal.³ This is especially, but not exclusively, true with benefits requiring medical assessments, where the eligibility requirements cannot always be precise. Currently, around one-fifth of benefit decisions contain errors of some kind, and in benefits such as Disability Living Allowance and Attendance Allowance, the figure is around half. Many errors do not lead to inaccurate payments but they do reflect the complex process of gathering evidence, interpreting the law and asking the correct questions.

5 The consequences of complexity

Incorrect and inconsistent decisions

- Error
- Fraud
- Lower uptake
- Appeals
- Inconsistency in decision making

Administrative burden

- Heavy requirements on staff
- Heavy requirements on administrative systems
- Possible poor performance

Service levels

- Inadequate communication
- Delays in processing and payment
- Difficulty in claiming and maintaining benefit

Government policy objectives

- Negative impact, for example, on work incentives, pension savings behaviour, and child support

19 The quality of service provided to customers can be undermined by the difficulties presented by complexity. The many conditions and rules attached to specific benefits are not well understood by customers and many would prefer a simpler, less changeable system where they did not need to know about the many conditions and rules attached to specific benefits. Many find claim forms too long and have difficulties gathering together evidence. This is particularly the case for those with mental health problems or those who do not have English as a first language, although the Department has a number of measures in place to provide assistance such as the Language Line – a service provided by Jobcentre Plus to assist in the translation of departmental information for people for whom English is not their first language. Nevertheless, the contacts made for assistance on benefits issues with organizations such as Citizens Advice (over 1.3 million cases in 2003-04, representing about four per cent of benefit recipients) show the scale of the need for help to navigate the system.

3 NAO report 'Getting it right, putting it right: improving decision-making and appeals in social security benefits' (HC1142 2002-03).

20 Complexity may impact on the achievement of government policy objectives. There is evidence of a lack of understanding of benefits and a lack of desire to acquire it. For example, some customers – particularly pensioners – do not take up all the benefits to which they are entitled, and the complexity of the system has been identified as an important barrier to claiming. There is also a growing appreciation that a combination of the complexity of the benefit system and complexity in legislation covering private pension provision has deterred saving for retirement. According to the Pension Commission, the UK has a highly complex state and private pension system, and under half of people surveyed claimed to have a good or reasonable understanding of it. **Box 3** illustrates cases of customers struggling with the system.

21 Complexity makes things harder for staff.

Complexity impacts on the performance of staff who administer benefits because of the need to keep up with changing regulations and guidance, and the difficulty of giving out information with confidence. The number of conditions associated with each benefit means that few individuals can have a detailed knowledge of a range of benefits. There are, for instance, 24 files of guidance on Jobseeker's Allowance alone and 14 volumes for Income Support. The need to convey complex messages makes it harder for the Department to communicate in a straightforward manner with its customers in writing or orally (Box 3). Departmental research also suggests that the complex system can be a deterrent to staff volunteering information to customers, with advisers feeling the need to be vague, fearing the risk of misdirecting or confusing them. In extreme circumstances, where customers believe they have been misled, the Ombudsman has taken up their cases.

BOX 3

Impact of complexity on customers

Confusing written advice: Extract from a letter from the Disability and Carers Service to a couple in their 50s

"We are pleased to tell you that your claim for Carer's Allowance has been successful... You are entitled to £43.15 a week from 09/03/2004. You are entitled to an increase of £25.80 a week from 09/03/2004 for a dependent adult. We cannot pay you from 09/03/2004. This is because the amount of Incapacity Benefit you get is more than the amount of Carer's Allowance we could pay you."

The husband went to Citizen's Advice for help. They were able to explain that although the Carer's Allowance was not payable, the fact that it was an entitlement meant that the couple would receive an Income Support carer's premium and other passported benefits. This had not been made clear. The Department told us the standard letter has subsequently been amended.

Demands on customer awareness and resilience: Under-claiming by users of community mental health services

A 2003 project to help users of community mental health services found that while it was in most cases relatively easy to establish entitlements, it took considerable effort to convey this information to the appropriate part of the Department, and obtain payment. The project involved 788 letters, 436 interviews, 900 telephone calls and the completion of 169 claims forms, mostly for the 87 people who secured additional benefits. Customers had previously been prevented from making the claims by difficulties in understanding rules and criteria. The project concluded that the complexity of the benefits system leads to wrong or inadequate advice from staff since they are unable to keep abreast of legislative and policy changes.

The importance of assistance: A brain-damaged man with severe short-term memory loss has to cope with multiple benefits

The client had lost Housing Benefit because he could not prove receipt of Disabled Person's Tax Credit, and consequently risked losing his home. The Citizen's Advice adviser needed to make multiple calls to verify the man's status with respect to the Tax Credit and Disability Living Allowance, and said 'Client would have been completely unable to unravel all the inter-relationships himself and may have lost his home'.

The impact of mistakes: A disabled man and his family put under stress due to complex benefit interactions

Citizen's Advice discovered that a family was not receiving sufficient Incapacity Benefit. This was rectified, but an overpayment was consequently suspected in Housing Benefit. The various mistakes made by agencies due to the complex interaction of these benefits increased the stress of the family at the time that the husband was about to have a leg amputated.

Source: Citizen's Advice (1, 3 and 4), *International Journal of Social Psychiatry* 2003 (2)

22 Complexity adds to the cost of administration. The greater the number of steps involved in reaching decisions, calculating payments, and the wider the range of evidence to gather and take into account, the greater the cost of administration is likely to be. Costs vary considerably; for example, the Department calculates that processing a new Income Support claim is around £61 compared with a Crisis Loan from the Social Fund at around £16. The administrative costs of complexity include the cost of correcting errors made by staff and customers, continuous staff training, supervision and management checking. The full cost is hard to measure, however, and in some cases, the costs are hidden, for example, the additional training costs to help staff deal with their specific training needs on particular issues. Other costs are exported, for example, those incurred by voluntary bodies giving advice on the completion of forms.

23 Complexity places heavy demands on IT. The Department has 35 major IT systems and is currently undergoing one of the largest modernisation programmes in Europe after a period of limited investment in making linkages between systems. This has affected its ability to help staff cope with the complex system. IT modernisation is constrained by complexity, with solutions made harder in some cases by a lack of compatibility between different systems. Complex policy requirements take longer to develop workable solutions, increase the likelihood of problems and failure, and ultimately require more investment. Attempts to simplify policy are limited by the desire to meet a wide range of circumstances. IT providers have expressed concerns that solutions are not always considered as part of policy development; last minute policy changes can affect technical design and even simple IT systems can be complicated by the need to cater for exceptions. However, the Department advised us that the infrastructure is being put in place to enable existing systems to be replaced with new, accessible technology which would help staff make more common connections and allow eligibility and award recommendations to be made for more complex cases.

What has the Department done to deal with complexity?

24 In its Five Year Strategy, published in early 2005, the Department stated that ‘Tackling complexity would make the benefits system easier for our customers to understand and access. We are actively considering the possibilities for future benefit simplification – which could substantially cut the large sums both overpaid and underpaid because of mistakes and misunderstandings.’ However, this is not an easy option and simplification may not be possible or desirable for a number of reasons (**Box 4**). For example, some measures such as Job Grant and Housing Benefit run-ons (which could be argued to increase complexity) were introduced to create incentives for customers.

BOX 4

Simplification may not be possible or desirable for a range of reasons. They include:

- Politically undesirable to create too many losers from a specific change
- Changes may be costly and may not fit with public expenditure plans and timescales
- Simplification may undermine policy objectives
- There may be competing demands for parliamentary time and other legislation has priority
- A more broad-brush system would be less targeted to individual customer circumstances

25 Simplification of regulations will not necessarily save money; administrative costs may be saved but programme expenditure could easily outweigh this many times over. For example, a problematic area of Income Support and Jobseeker’s Allowance is the failure to disclose ‘living together as husband and wife’ which was estimated to cost around £190 million. One way to simplify the rule would be to increase the allowance for couples to twice the allowance for single people. However, the Department estimated this would increase benefit payments by around £2.2 billion in Income Support and Jobseeker’s Allowance in 2003-04 and might have a detrimental effect on work incentives for customers. Nevertheless, although there are good reasons for complex regulations, the Department has taken a number of steps to try to tackle complexity (**Box 5**).

BOX 5**Approaches to tackling complexity**

Design reforms – major changes to the benefit system

Patchwork reforms – smaller, specific changes to regulations

Vertical reforms – improvements to the arrangements for handling a benefit between agencies in a vertical chain of management

Horizontal reforms – improvements to the way organisations or delivery units work together to administer benefits

Delivery reforms – simplifications and improvements in the way in which benefits are delivered to the customer

Monitoring measures – measures to review and scrutinise regulations in advance of implementation or to consider more strategic developments of the system

26 The Department has introduced major reforms to some entitlements. In recent years, some major structural reforms to the benefits system (with the objective of simplification) have been introduced or proposed, including changes to Housing Benefit, Child Support and the guarantee element of Pension Credit (which is less complex in many ways than its predecessor, Minimum Income Guarantee). In each of these cases, significant performance problems had been identified which made proposed simplification worth investing in. In the case of Pension Credit, there were concerns that low take up of benefits amongst many pensioners was undermining the Government's anti-poverty objectives. With Child Support and Housing Benefit, the complex rules were widely seen as one of the main factors leading to a poor or inconsistent administrative performance. Common themes of reform have been deliberate reduction in evidence gathering requirements, attempts to reduce the number of calculations involved and greater transparency of outcome for customers.

27 The Department has made regular minor changes to certain benefits to improve their delivery. Major design reforms are not in some areas necessary, desirable or possible, but the Department has taken regular opportunities to achieve piecemeal improvements of the benefit administration. In Housing Benefit, for example, this is seen as a key part of on-going reform and measures have been included in recent Budget and Pre-Budget reports. There has also been a conscious desire to 'chip away' at the income test by making it less complex and intrusive. This removed the requirement for recipients to renew their claim every 6-12 months, ending a time consuming element of work which was unpopular with

customers. Elsewhere, amendments have been made to simplify aspects of the Social Fund and routine changes to Income Support legislation are made twice yearly.

28 The Department has achieved improvements in the ways in which some benefits impact on each other and on other forms of assistance. The Department has acted in a number of instances to manage better the complexities in the vertical chain of management from central authorities through regional and district offices, to front-line staff, as well as with local level partners such as local authorities and other partners. Housing Benefit has been particularly active in this regard. For example, local authorities use The Pension Service's information when processing an individual's Housing Benefit claim. The introduction and roll-out of Remote Access Terminals has also provided local authorities with improved access to benefit information held by the Department. Through these terminals, local authority staff administering Housing Benefit and Council Tax Benefit can link into the departmental mainframe systems and obtain specified, relevant benefit data. In addition, The Pension Service has begun to develop Joint Teams, in which its officials work with staff from local authorities and voluntary bodies to gather data from individual pensioners to identify their potential for benefit. Another initiative being piloted is the development of a standard operating model for processing of new claims for certain benefits within Jobcentre Plus.

29 Efforts have been made to improve the delivery of benefits to customers but communicating information to them remains a problem. An alternative to simplification of benefits regulations or the administrative system is to seek to manage complexity so that it does not adversely affect the customer. There have been a wide variety of such initiatives, including practical developments such as shorter forms (for example, for Jobseeker's Allowance (in 2002), Attendance Allowance (in 2003) and Pension Credit (in 2003)), the development of more than 70 contact centres and the greater use of telephony through which the Department hopes to be able to protect customers from the complexity of the system or guide them through it.

30 The Department's plans to centralise benefit processing and use contact centres for more straightforward interactions are central to its programme to meet its target of £960 million annual efficiency gains by 2007-08. These provide an opportunity for greater consistency in processes and the treatment of customers, as well as concentrating face-to-face help on those who need it.

31 Other initiatives have tried to make interaction with customers easier. Rapid Reclaim was introduced in 2001 for Income Support and Jobseeker's Allowance and in Housing Benefit and Council Tax Benefit in October 2002. This is designed to streamline the reclaim process for those customers who return to the same benefit within 12 weeks of entitlement ceasing, where there have been no major changes of circumstance. Face to face contact is often required, and Jobcentre Plus provides direct advice through financial assessors, whilst some 10,000 personal advisers provide assistance to help people find work or improve their skills. The Pension Service has developed a local service for targeted assistance of those pensioners who require face-to-face contact. These contacts – face to face and over the telephone – require that staff have thorough training to ensure accurate and complete information is given and the necessary evidence is gathered.

32 The need to convey often complex information is a constant challenge for the Department. On the one hand, there is a duty to ensure that information provided is complete and accurate but on the other, it is essential that details are concise and accessible to people with a range of educational attainment. Some parts of the Department are simplifying their approach to the information they provide to the public. During 2005, Jobcentre Plus is introducing a new set of leaflets based around a set of customer focused guides for specific groups – such as lone parents or school and college leavers. The intention is that information sheets will then supplement the guide and provide more detail. The Pension Service's 'Pensioners' Guide', issued originally in 2002, consolidates information about pensioners' entitlements in one guide which explains the linkages between benefits. The Department is reviewing the branding of its products, services and constituent businesses but there remains a confusing array of products and services (more than 230 leaflets) and terminology used inevitably remains complex.

33 **There is some external monitoring of the complexity of regulations and the Department has begun its own internal review of the scope for simplification.** Social security legislation has a tendency to grow in complexity in response to the forces highlighted in paragraphs 9 to 11. This highlights the importance of mechanisms to identify, scrutinise and provide independent advice about proposed developments, and where appropriate, to counter it. The Social Security Advisory Committee acts as one such external monitor, providing advice to the Secretary of State on social security issues generally, and considering and reporting on specific proposals for regulations referred to it by the Department. The Secretary of State is obliged

to publish the Committee's reports and respond to its recommendations. At the same time, internal controls operate within the Department, where there is on-going strategic consideration of the future development of the benefit system, and small step by step changes are being taken to simplify specific benefits, for example in Housing Benefit and in the pensions area.

Strategy for further tackling complexity

34 The Department of today has to live with decisions taken about benefits in the past. Overall, the Department has made some progress in tackling the complexity of the system and in designing ways of managing it to protect staff and customers, but it recognises that there is considerably more to be done. There are a number of lessons to be learned from recent developments. In particular:

- simplification cannot be seen in isolation from pursuing wider policy objectives. It would not be possible or desirable if it undermined departmental aims such as helping people into work or reducing poverty;
- simplification of rules does not necessarily lead immediately to a successful policy outcome and does not necessarily go hand in hand with simpler IT, as the current problems with the Child Support Agency show with the need for the handling of many exceptions;
- simplification is not necessarily a way of saving money, although some simplifying measures such as payment modernisation streamline processes, thus releasing savings or resources to be redeployed on other priorities;
- some initiatives can include both simplification and added complexity – many aspects of Pension Credit such as the assessed income period have been welcomed, but the design of the savings credit increases the complexity of the system as a whole; and
- administrative shortcomings and pressures on the organisation (such as job reductions, the extensive business change programme and the need to make efficiencies) mean departmental performance is more vulnerable than it might be to the negative effects of complexity. At the same time organisational and process improvements such as the centralisation of benefit processing, standard operating models and increased use of telephony should be helpful for both staff and customers in coping with complexity.

35 We consider that an appropriate degree of complexity exists where there is an equilibrium between the system being complex enough to meet the needs of a wide range of different individuals in various circumstances, yet straightforward enough to run efficiently. Overall, in the National Audit Office's view, this equilibrium has not yet been reached. The evidence for this is indicated by:

- the additional work required to detect and address fraud and error, estimated at £2.6 billion in 2004-05, and measure progress in reducing it. The National Audit Office is undertaking work with the Department in response to the Public Accounts Committee recommendation in their 4th Report of 2005-06 to establish how this compares with social security authorities and major private sector financial institutions in the United Kingdom and abroad, and what levels of fraud and error are to be expected in an organisation of this size;
- the re-work required to recover overpayments, deal with customer contacts generated by delays and misunderstandings, and manage the appeals process;
- the degree of customer support required, illustrated for example, by the numbers of people seeking assistance on benefit issues from advisory bodies; and
- the adverse effects of complexity on some key policy objectives such as tackling poverty.

36 Dealing with the problems associated with complexity is a long term project which will require a systematic and strategic approach focusing on the system as a whole. We recognise that a number of steps have already been taken (**Annex A on page 17**). It is not for the National Audit Office to determine which regulations should be removed. Instead, we encourage the Department to develop a strategy for short and long term tackling of the problem of complexity. In the short term:

A Complexity impacts on all aspects of the Department's business and must, therefore, be treated as an influence on most of its major business risks. There should be regular monitoring and reporting of progress in dealing with the problems associated with complexity.

It is for ministers to decide policy but it should be done in full consideration of the impact of any major new development on the complexity of the whole system. To maintain attention on the issue, the Department should record in its Annual Report improvements made to the system during the reporting year.

B Allied to this, there should be a recognition across the Department of the importance of chipping away at regulations as part of its wider efficiency agenda work. Given the pressures on the system to become more, rather than less, complex, there should be an on-going department-wide commitment to exploit opportunities to cut away complex regulations. This might include removing formerly useful definitions as they become obsolete, as well as ensuring that the scope for simplification is always considered when major benefit reform is discussed. The Department will need to prioritise its programme of action for cost and time reasons.

C Clear communication with customers (and the wider population since many rely on information from friends and family) is essential to overcome lack of understanding of the benefit system and requires greater consistency in the terminology used in departmental literature.

The Department has made efforts to produce clearer consolidated information material such as the Pensioners Guide, whilst Jobcentre Plus will start to issue a new set of client focused leaflets in 2005, and the Department carried out a review of its 'branding' to overcome a lack of corporate identity which makes its key products difficult to identify. The Department should continue to improve its literature through ongoing reviews and rationalisation as part of a wider review of all channels of communication – including award letters and correspondence – to ensure they remain suitable for customers.

D There are few barriers to the benefit system as a whole becoming more complex and those there are could be used more effectively. In particular:

- The external challenge role of the Social Security Advisory Committee provides a valuable check on complexity, drawing on the wide ranging expertise of its independent members. We encourage the Committee to include in its annual report a regular commentary on the complexity of the system based on its work during the year.
- In view of the implications of complexity for financial control and the impact on fraud and error, we also encourage the Audit Committees of the Department and its agencies to consider the issue of complexity on a regular basis.

- The Department should also take full advantage of the Regulatory Impact Assessment procedure which helps to ensure that legislation is fair and effective, necessary, meets the principles of better regulation and imposes the minimum burden. Since it is Parliament that scrutinises and approves the legislation, the Department should ensure that the Regulatory Impact Assessment communicates effectively to Parliament the benefits, costs and risks of its preferred option.

E Investment in staff training is essential to limit the consequences of complex systems: Many staff struggle to keep up with the complexity of the system and there is growing evidence that this affects their ability to advise on benefits and the links with tax credits. However, the new, more proactive approach to dealing with customers – via financial assessors, personal advisers and contact centre staff – underlines the importance of high quality training for all these staff so they can deal effectively with customer queries across benefits. This is particularly important for those who have face to face dealings with the hardest to help, as well as those who are responsible for gathering basic customer information on which the system relies. Certain roles offer scope for professionalisation. A valuable example of how this could be done is demonstrated by the proposed introduction of an accreditation system for Disability and Carers Service decision-makers.

F Reducing the complexity of the administration of the system offers perhaps the greatest scope for reform. Harmonisation of administrative rules and procedures would be a significant step forward and make the system easier to explain to customers. Benefit regulations currently include different administrative procedures for similar aspects of the regulations. Harmonisation of these procedures and rules would make it easier for both administrative staff and customers to understand and apply the rules. Currently, for example, there are different expectations for reporting changes of circumstance and applying for benefits, depending on which benefit is being paid. Efforts in this area would fit with the Department's current plans to achieve greater efficiency and standardisation of processes, for example, through the introduction of Benefit Processing Centres.

Longer term, we consider:

G To avoid complexity at the interface between the tax credit and benefit systems, the Department should work with HM Revenue and Customs towards greater clarity for customers and more streamlined procedures where possible. Areas to explore in this respect might include common guidance, application forms and application timetables where appropriate, common terminology, IT, overpayment recovery, write-off criteria and fraud and prosecution arrangements.

H New technology remains a crucial element in the handling of a complex benefit system. Improved, easily accessible technology will help release the Department from dependence on detailed knowledge of complex benefits amongst staff and allow for efficient handling of routine cases. The Department's IT strategy is to support staff and customers in being able to navigate more easily through complex benefits rules and regulations. For example, the new Customer Information System provides staff with single, accurate views of key information for all customers. It will form one of the biggest databases in Europe. The first two phases have been successfully released. Improvements in the use of new technology, including legislative rule-based technology and decision-making support, could release resources for value added activities and reduce the need for some training costs.

I The Department has to live within its budget and contribute to the Government's efficiency drive. In considering where to take simplification measures, the Department should take a wide view of the benefits to be gained by itself and its customers. In considering the cost-effectiveness of specific simplification measures, the Department should take a broad view of direct and indirect savings and impacts which may be achieved, bearing in mind the benefits of clarity and practical implementation, both for itself and its customers. This will require assumptions to be made about improvements in efficiency and delivery, quality improvements, reductions in fraud and error, as well as how greater compliance might result from improvements in the general public's perception of the social security system.

ANNEX A

Case examples pointing the way forward

Example of simplification action

Designing new benefits to deliberately reduce complexity

Major reforms of benefits are relatively rare. Pension Credit was introduced in 2003 to replace Minimum Income Guarantee. Research identified a number of problems. The aim was to improve provision for less well-off pensioners. In designing Pension Credit the Department sought to simplify the benefit where possible. In particular:

- under the Minimum Income Guarantee, a pound of additional income meant a pound withdrawal of benefit;
- there was a lack of understanding amongst pensioners about definitions of savings, and what information therefore needed to be disclosed when applying for benefit;
- the postal application process required pensioners to send savings books to the Department by post, which many were reluctant to do.

Systematically removing anomalies and deliberately realigning provisions

Major redesigns of benefits are infrequent. In the meantime, more piecemeal simplifications can help to remove anomalies. Successive budgets have been used to simplify aspects of Housing Benefit such as the requirement for recipients to renew their claim every 6-12 months.

In the 2005 Budget, the Government announced that upper capital thresholds for Income Support and Jobseeker's Allowance would be raised from £8,000 to £16,000, in line with the thresholds for Housing Benefit and Council Tax Benefit, to create alignment between the working age benefits with the intention of encouraging households to save.

Simplifying customer input

The Department has made some progress with reducing the length of certain application forms. A shorter version of the Attendance Allowance claim form was introduced in October 2003 and a clearer, more structured Disability Living Allowance claim form is being developed. A new suite of national model claim forms has been introduced for Housing Benefit and Council Tax Benefit, including a shorter form for Pension Credit customers. The Pension Credit form is significantly shorter than that for Income Support.

Benefits gained by customers and the Department

- Simpler rules – there is now a list of the type of income to be considered and greater clarity about what is excluded
- Simpler application process – the application form has been reduced in length
- Assessed income periods have been introduced so that some customers have their main sources of retirement provision updated every year, with no need to report changes to capital, pensions and income from annuities over the period
- Generally greater transparency although in parts still hard to explain to customers

- Regular programme of smaller scale simplification undertaken
- Removal of some time consuming elements to the benefit of customers and greater efficiency
- Reduction in disincentives within the benefit system

- Shorter forms for customers
- Reduced information requirements and the removal of unnecessary questions that seldom apply to pensioners
- Reduced disincentive to some not to claim

Example of simplification action

Simplifying processes and rationalising requirements

The Rapid Reclaim was introduced for both Income Support and Jobseeker’s Allowance customers. It aims to streamline the reclaim process for those who return to the same benefit within 12 weeks of entitlement ceasing on their previous claim where there have been no changes in circumstance.

- Streamlined processes for reclaiming benefit after a short period
- Reduces disincentives to take up employment
- Balances the risk of inaccurate payments with the benefits of easier reclaims

Sharing information and avoiding duplication of effort

Remote access terminals provide local authorities with improved access to benefit information held by the Department. Through the terminals local authorities administering Housing Benefit and Council Tax Benefit can link into the departmental mainframe computer system and obtain specified, relevant benefit information. Arrangements have been made for local authorities to obtain details of tax credit awards from HM Revenue and Customs.

- Improving administrative efficiency
- Greater co-ordination between different benefit administering authorities
- Greater use of existing data and reduction in duplication of effort

Using technology to protect customers from complexity

Used by well trained staff, new technology offers the prospect of protecting millions of customers from much of the complexity in the system. Delivery of Pension Credit is mostly by telephone. Staff from the Pension Service complete the form and then send it to customers to check and return.

- For many, it enables them to be helped through the application
- Where completed accurately it reduces the amount of incorrect data entering the Department’s systems
- Allows much of the complexity of a benefit to be ‘hidden’ from the customer
- Allows the questioning to be tailored to customers
- Assists staff in dealing effectively with customers, although the Department will need to manage the risk of over-reliance on technology leading to loss of staff expertise in benefits

Making the most of external scrutiny mechanisms

The Social Security Advisory Committee provides a valuable form of external, independent scrutiny of legislative proposals. Members can question officials on whether the regulations will achieve their chosen policy intention or whether they are consistent with other regulations.

- Minor changes can be made to regulations to provide greater clarity or avoid unintended consequences
- Officials can be challenged about specific details in regulations
- External expertise can be applied to the proposals

