



National Audit Office

## DEPARTMENT FOR WORK AND PENSIONS

# Progress in tackling benefit fraud

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**DEPARTMENT FOR WORK AND PENSIONS**  
Progress in tackling benefit fraud

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***John Bourn***  
**Comptroller and Auditor General**  
**National Audit Office**

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The National Audit Office  
study team consisted of:

Lee Summerfield, Rachel Coffey,  
Elena Bechberger and Sarah Sharp  
with assistance from Shabana Ahmed  
and Darren Jones, under the direction  
of Jeremy Lonsdale

This report can be found on the National Audit  
Office web site at [www.nao.org.uk](http://www.nao.org.uk)

**For further information about the  
National Audit Office please contact:**

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

Tel: 020 7798 7400

Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

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# KEY FACTS

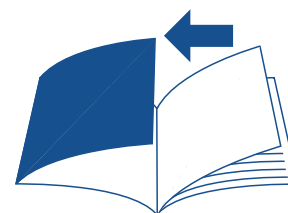


Figure 1 overleaf

## What is the extent of fraud?

	2006-07
Total benefit expenditure	£120 billion
Total number of benefit recipients	18 million
Total estimated fraud and error	£2.7 billion
Total estimated fraud	£0.8 billion
Estimated fraud as a percentage of expenditure	0.6 per cent

- The value of fraud is highest in Income Support (£210 million; 2.3 per cent of total expenditure).

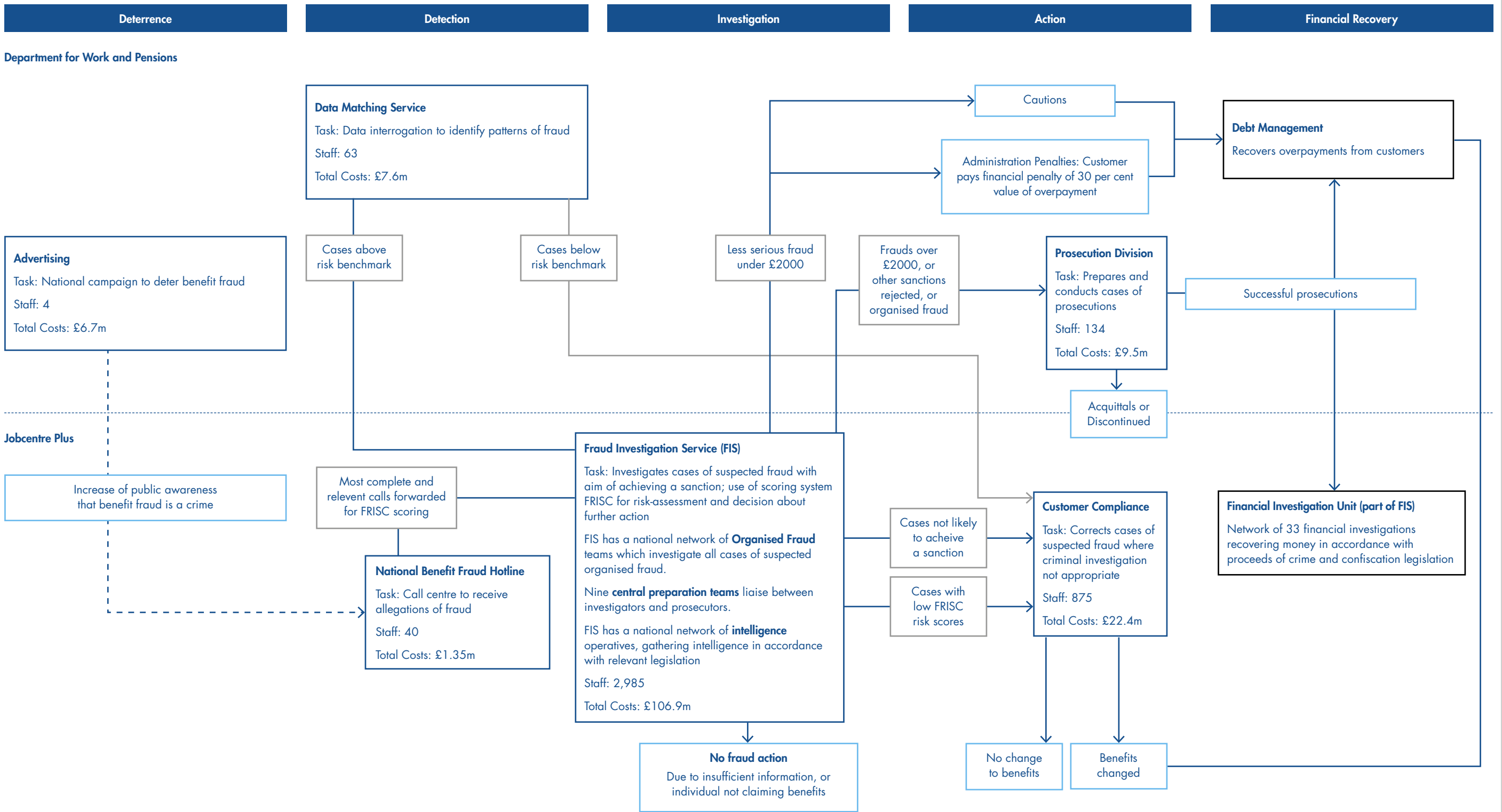
## What does the Department do about it?

- There is a well defined strategy for targeting benefit fraudsters.
- In 2006-07, £154 million was spent on six of the strategy's key activities to reduce fraud.
- During 2006, the Department introduced a new Customer Compliance approach that deals with lower risk cases where full criminal investigation is judged unnecessary, enabling its Fraud Investigation Service to investigate higher risk frauds.
- Around 4,000 staff work directly in counter-fraud activity, with the majority in the Fraud Investigation Service (2,985) and Customer Compliance (875).
- In 2006-07, 614,000 cases of potential fraud were identified for further investigation.

## Do the Department's activities represent value for money?

- The Department has reported that the PSA target to reduce fraud and error in Income Support and Jobseeker's Allowance by 50 per cent by 2005-06 has been achieved.
- The Department estimates that, during 2006-07, £106 million of benefit overpayments were identified as a result of fraud investigation and compliance activity, down 26 per cent from the amount identified by the Fraud Investigation Service the previous year.
- During 2006-07 the Department recovered £22 million of the total £339 million outstanding fraud debt that it is seeking to recover.
- In 2006-07, 114 confiscation orders were raised and £6.6 million worth of assets were seized.
- Total sanctions recorded for April to September 2007 show a 16 per cent increase from 17,000 to around 19,000 compared to the same period in 2006.
- Of the 7,483 cases that the Department concluded through its Prosecution Division in 2006-07, 6,756 resulted in a successful prosecution. An administrative penalty or a caution was agreed after proceedings starting in a further 208 cases.
- The Department received 280,000 calls to its National Benefit Fraud Hotline during 2006-07, with every £1 spent on running the Hotline identifying around £16 of estimated overpayments.
- A fraud investigation takes on average 162 days to complete (503 days for Organised Fraud cases), costing on average £496.
- In 2006-07, Customer Compliance reviews led to changes in benefit in 95,673 cases – costing around £77 to complete each case and identifying an average actual overpayment of £48 per case.

1 The network of counter-fraud activities 2006-07



□ Studied intervention   □ Outcome   □ Decision path   □ Other organisational unit   - - - Indirect impact of intervention

Source: National Audit Office

# PREFACE

Tackling fraud is a key priority for the Department for Work and Pensions. This report examines the effectiveness of its main anti-fraud initiatives. In doing so, it recognises that:

- Tackling benefit fraud is inherently difficult. It is in the nature of all welfare systems that some people will seek to defraud them and that some will succeed. The effectiveness of government agencies in tackling fraud is also likely to be affected by the attitudes to fraud prevalent within society and external economic factors.
  - The United Kingdom has levels of social security fraud and error which are similar to those in comparable countries, but, as we reported in 2006, the Department for Work and Pensions has a better understanding than other nations of the problems and, on the basis of that research, is doing more to tackle them.
  - The Department has made good progress in tackling benefit fraud. The total level of estimated fraud has fallen from an estimated £2 billion in 2001-02 to an estimated £0.8 billion in 2006-07 – a drop of around 60 per cent – although definitional changes have contributed. This is a reduction from 1.9 per cent to 0.6 per cent in terms of the total amount of estimated fraud as a percentage of total benefit expenditure.
  - Having reduced estimated levels of fraud to 0.6 per cent of benefit expenditure, it is likely that the Department will find it increasingly difficult to secure significant further year on year reductions.
- Efforts to reduce fraud are part of a wider range of initiatives to eradicate all types of irregularity in the payment of benefits, including customer and official error. Whilst fraud has fallen considerably, error has risen over the same period – from £1 billion in 2001-02 to £1.9 billion in 2006-07. Whilst maintaining the focus on fraud to ensure that it does not rise again, the Department will need to decide on the appropriate balance of resources to be divided between tackling fraud and error. We will follow up this report by examining progress in efforts to reduce error, a number of which have been introduced relatively recently and have yet to have an effect.
  - In this context, while recognising the advances that the Department has made in recent years, this report makes recommendations to reinforce the Department's efforts.



# SUMMARY

**1** Benefit fraud is a crime and undermines public confidence in the benefits system. Tackling benefit fraud is inherently difficult. It is in the nature of all welfare systems that some people seek to defraud them and that some will succeed. Good progress has been made in reducing the estimated value of benefit fraud, which represents a substantial achievement by the Department and its staff. Estimates by the Department for Work and Pensions<sup>1</sup> (the Department) suggest overpayments due to fraud have fallen from £2 billion (to the nearest £0.5 billion) in 2000-01 to £800 million (to the nearest £0.1 billion) in 2006-07, although definitional changes, described in Figure 3, have helped to some extent. This is a reduction of 60 per cent. Reducing levels of fraud and error in the benefit system continues to be a key objective of the Department, which has had its main accounts qualified for the last 18 years due to the levels of fraud and error (**Box 1**).

## BOX 1

### What is the difference between fraud and error?

The Department defines **fraud** as those cases where customers deliberately claim money to which they are not entitled.

**Customer error** occurs when customers provide information to the Department which is inaccurate, incomplete or untimely, but without dishonest intent, and as a result the benefit paid is inaccurate. Official error occurs when officials fail to apply specific rules or do not take into account all the notified circumstances. We have not looked explicitly in this report at internal fraud.

The Department's segregation of fraud and customer error estimates will always be subjective, being dependent on the conclusion on intent for individual cases investigated. Whilst official error is relatively isolated and attributable to administrative failures, fraud and customer error are harder to separate as the fundamental factor is proof of fraudulent intent.

**2** Although fraud has fallen in recent years (**Figure 2**), we have chosen to examine progress in tackling external fraud because of the amount of money involved and the considerable attention the Department has given to it in recent years. To see what progress has been made since our last report in 2003, we considered:

- What is benefit fraud and what progress has been made in tackling it?
- How effective are the Department's interventions to tackle benefit fraud?
- Do the Department's counter-fraud interventions represent value for money?

We will follow this up with a report examining progress in tackling error, where the Department has taken a number of initiatives more recently which have yet to have an effect.

**3** Protecting the integrity of the benefits system is at the heart of many of the Department's policy and operational initiatives. Since our last report, the Department has carried out major organisational change, including, for example, the roll out of Jobcentre Plus and the introduction of contact centres, designed to improve the services they provide at the same time as ensuring benefits are paid correctly to those eligible. These and other changes have taken place at the same time as the Department has reduced its headcount, expected to come down by 30,000 by March 2008. In addition, the development, for example, of regular interviews with jobseekers, medical examinations with people claiming disability and incapacity benefits and more checks at the outset of a claim for benefit are all designed to assist in getting the benefit right, encouraging compliance with regulations, and increasing the opportunity for the Department to identify those who are likely to be deliberately defrauding the system. Such measures have

<sup>1</sup> The Department's evidence supporting the fraud and error estimate is based on a range of reviews and exercises of the different benefits. As part of our audit of the Department's accounts, including the Department's estimate of fraud and error, we reviewed the Department's approach to sampling and the methodology applied in checking, including re-performance of a sample of items. The National Audit Office also reviewed the processes for interpreting the data and generating estimates of error and fraud. As a result, we are satisfied that the figures reported by the Department are the best estimates available.

## 2 Comparison of benefit expenditure and losses due to fraud, 2001-02 to 2006-07

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total benefit expenditure, £ billion	107.0	112.0	105.8	110.9	115.8	119.8
Total number of benefit recipients, million	17.0	17.0	17.0	17.0	18.0	18.0
Total estimated fraud and error, £ billion	3.0	3.0	2.6	2.6	2.7	2.7
Total estimated fraud <sup>1</sup> , £ billion	2.0	2.0	1.0	0.9	0.8	0.8
Estimated fraud as a percentage of expenditure, per cent	1.9	1.8	1.0	0.8	0.7	0.6

Source: Department for Work and Pensions Resource Accounts, 2001-02 to 2006-07

### NOTE

1 Estimated levels of fraud and error for 2003-04 were restated in 2004-05, using a more accurate methodology. The figures shown for 2003-04 are the restated ones.

all been the subject of reports by the Comptroller and Auditor General. However, the Department has a range of interventions involving around 4,000 staff and costing more than £150 million deliberately designed to prevent fraud and identify it where it appears to be occurring. This report focuses on these anti-fraud measures.

## Overall, good progress has been made in reducing fraud

4 Overall, good progress has been made in reducing estimated levels of benefit fraud and in March 2006 the Department reported that it had met its Public Service Agreement (PSA) target to reduce Income Support and Jobseeker's Allowance fraud and error by 50 per cent, by 2005-06. As part of the 2004 Spending Review, the Department was given a new target to reduce fraud and error in Income Support and Jobseeker's Allowance by a further 15 per cent. In 2006-07, an estimated £800 million (to the nearest £0.1 billion) was lost due to fraud, around 0.6 per cent of total benefit expenditure, but down from an estimated £2 billion (to the nearest £0.5 billion) in 2001-02. In particular:

- estimated fraud against Jobseeker's Allowance, Income Support and Pension Credit has fallen from £900 million to £380 million since 1997-98 – a reduction of nearly 60 per cent;
- since 2002, estimated fraud in Housing Benefit has reduced by around half to 1.0 per cent of expenditure in March 2006, although estimates for customer and official error have increased, and the Department reported that it has not met its PSA target for Housing Benefit, which covers both fraud and error.

## The Department has a range of targeted initiatives to tackle fraud

5 In our previous report in 2003 we recommended that the Department:

- gave greater focus to higher risk activity;
- ended the decline in fraud prevention and investigation activity;
- ensured it had reliable information on costs and results to allow resources to be allocated efficiently;
- did not make administrative savings at the expense of the reduction of losses; and
- increased the number of prosecutions and assessed the success of other deterrents and sanctions to prevent fraud.

6 The Department's range of counter-fraud measures and their interconnections are summarised in Figure 1. Since our previous report, the Department has taken a number of initiatives to enhance its counter-fraud activity. In particular, it has:

- developed a more risk-based and intelligence-led approach to countering fraud, using a risk assessment tool called FRISC to prioritise cases;
- started to roll out in 2007 a new case management system called FRAIMS to speed up the management of cases;
- developed its advertising campaigns to target specific groups and those likely to commit fraud;

- restructured the Counter-Fraud Investigation Service into the Fraud Investigation Service (which investigates all fraud against all benefits administered by the Department's agencies) and a newly developed Customer Compliance function (which deals with lower risk cases where full criminal investigation is judged unnecessary or where a sanction is unlikely to result);
- introduced more checks at the outset of a claim for benefit to prevent fraud entering the system in the first place, and begun to pilot voice risk analysis to evaluate its effectiveness in helping to identify high risk cases; and
- made extensive use of data matching and developed a more timely Data Matching Service, using private sector data to detect fraud.

## The Department is ahead of equivalent bodies in other countries in understanding and tackling the problem of fraud

7 Our 2006 report *International benchmark of fraud and error in social security systems*<sup>2</sup> considered the Department to be at the forefront of measuring welfare loss through fraud (Figure 3). We reported that whilst the United Kingdom has levels of social security fraud and error similar to those in comparable countries, which face many of the same problems, the Department for Work and Pensions has a better understanding than agencies in other nations of these problems, and is doing more to tackle them. We suggested that, although there was scope for the Department to learn from initiatives in some other countries, it was also very well placed to take the lead in encouraging the sharing of lessons abroad. Since that report, the Department has shared its experiences of tackling fraud with a number of interested countries.

## Despite good progress, the Department's efforts could be reinforced through improvements to current arrangements

8 Having reduced estimated levels of fraud to 0.6 per cent of benefit expenditure, it is likely that the Department will find it increasingly difficult to secure significant further year on year reductions. However, a number of aspects of current arrangements could be improved. In particular:

- management information needs improving to enable the Department to fully understand the impact of counter-fraud activity and its cost effectiveness;
- the systems of targets used between, for example, Fraud Investigation Service and Prosecutions Division to drive performance in counter-fraud work currently appear to lack cohesion. When setting targets, the Department should take account of the desired outcome of its counter-fraud work as a whole from investigating particular types of cases through to securing sanctions, with an increased focus on the outcome rather than outputs;
- since the introduction of Customer Compliance in April 2006, cost effectiveness indicators have not yet shown an increase in the value of recoverable overpayments identified by counter-fraud activity. However, the value of identified overpayments does not take into account that earlier activity introduced through Customer Compliance prevents the fraud from continuing. Although still relatively new, from January to March 2007, Customer Compliance performance improved and early indications from 2007-08 suggest that improvements are continuing;
- compliance work is delivered at District level through local Jobcentre Plus offices, so that links can be made with those delivering benefits, but it remains difficult to assess the effectiveness of Customer Compliance work as, although there is a national champion, there is limited coordination between Districts. There is also little general sense of a counter-fraud community, with staff working on the different interventions often working independently with different objectives;
- there is a need to improve the efficiency of processes so that cases flow more easily from one stage to the next. Currently, the progress of cases can be delayed when input is required from parts of the Department not primarily concerned with fraud, which in some circumstances can result in a case not being taken to court; and
- recovering debt is an essential part of tackling fraud and needs to be integrated more into the Department's counter-fraud work. Social Security Regulations limit the weekly amount recoverable and the level of deductions from benefit will depend on whether customers have other debt to repay and whether they have sufficient funds to live on. It may therefore take many years to recover fraudulent overpayments whilst customers are still in receipt of benefit, which may reduce the deterrent effect to commit further fraud.

2 Comptroller and Auditor General, HC 1387, 2005-06.

### 3 The Department's methodology for measuring fraud and error

The Department measures fraud and error in the major different benefits on a cyclical basis, according to the value of expenditure and risk of fraud and error. Income Support, Jobseeker's Allowance, Pension Credit and Housing Benefit are reviewed continuously with samples of cases reviewed for accuracy. In 2006-07, the Department reviewed almost 40,000 cases.

From 2001-02 to 2003-04, the methodology for estimating fraud and error overpayments remained much the same, and the reported estimate was constant at around £3 billion. The estimate was rounded to the nearest £0.5 billion.

For 2004-05, the estimation methodology changed in two significant ways. Firstly, the rounding and accuracy levels were tightened and estimates are now provided to the nearest £0.1 billion. Secondly, the Department reviewed its fraud and error measurement methodology around the categorisation of fraud and error in Disability Living Allowance. The Department acknowledged that some customers' circumstances changed so gradually that they could not reasonably be expected

to recognise the potential impact on their benefit claim. Had a case review occurred, however, it would have led to a reduction in payment. The resulting payments were therefore in excess of entitlement but nonetheless procedurally correct. A total value of £0.7 billion is therefore no longer included in the global fraud and error estimate.

In auditing the annual accounts, we consider the Department's estimation work and review its methodology, checking procedures and underlying sample work. We also undertake our own work independently to validate the conclusions reported by the Department.

The National Audit Office has welcomed the improvements in accuracy, but they have made it difficult to draw any firm conclusions on the Department's real success in tackling fraud and error over the period in which the estimation methodology was adjusted. The revised methodology was used by the Department to calculate the level of fraud retrospectively for 2003-04 in an attempt to address this.

*Source: Department for Work and Pensions*

## The cost effectiveness of the different counter-fraud interventions vary considerably

9 We examined six major counter-fraud interventions in detail, using workshops with officials to examine the resources used and outcomes achieved for each intervention. The interventions are described in detail in Appendix 4. We estimate that in 2006-07 the Department spent around £154 million on these six interventions. However, information on the costs of countering fraud is not complete, making it difficult for the Department to compare the relative costs and benefits of its activities. In part, this is due to the complex interactions amongst its activities, but is exacerbated by avoidable weaknesses including:

- a lack of a consistent measure of effectiveness across its counter-fraud activities to enable quick comparisons or to determine the real effectiveness of its activities; and
- the difficulties in establishing accurate and complete figures for Customer Compliance. Whilst some basic information on budgets and staff numbers is available, better use could be made of the information in order to assess its cost effectiveness.

10 In the absence of the Department's own assessment of cost effectiveness we have used all available data to establish a baseline for further work. The value of the deterrent effect of the Department's activities, which could be substantial, is not captured in the analysis as no adequate measure for this exists. In order to compare interventions we used the value of identified overpayments, although this is not a reflection of how much money has actually been recovered by the Department or has been prevented from being paid incorrectly any longer. Our analysis found that:

- based on estimated overpayments at the outset of a referral, those referrals generated through the Data Matching Service are more cost effective than those generated by the National Benefit Fraud Hotline (£24 compared with £16 overpayments identified per £1 spent);
- data matching referrals to local authorities appear most cost effective (£27 per £1 spent);
- Customer Compliance identified during its first year £0.62 of overpayments for every £1 spent. Based on recoverable overpayments identified alone, the introduction of this new approach does not yet appear to be cost effective. To August 2007, the data suggests that for the financial year 2007-08 Customer Compliance is performing better;
- the overall cost of investigation and compliance activity has reduced by 18 per cent, due in part to the redeployment of 1,400 staff from early checking of benefit claims to benefit processing centres, with the aim of improving fraud prevention;

- overall, the value of overpayments identified has dropped by 26 per cent, from £144 million in 2005-06 to £106 million in 2006-07. A drop in recoverable overpayments, however, would be expected as the intention of Customer Compliance is to intervene in a case earlier and correct benefit payments, thereby preventing further overpayments being made;
- the value of identified overpayments does not account for the fact that earlier activity introduced through Customer Compliance prevents the fraud from continuing. Reducing the benefit in payment as a result of this activity stopped further incorrect benefit payments of £5.25 million per week, preventing a further £0.23 of overpayments for every £1 spent on Customer Compliance activity;
- cases progressed through fraud investigation cost six times more than compliance cases (£496 compared with £77), reflecting the complexity and staff intensive nature of investigation activity compared to compliance; and
- it is not possible to determine the deterrent effect of the advertising campaign, but increased calls to the Hotline as an indirect result of the campaigns identified an estimated £900,000 of overpaid benefits.

**11** A major deterrent effect for potential fraudsters is the knowledge that the benefit will have to be paid back and the Department seeks to recover overpaid benefit through its 10 debt centres. For those people who owe money but are no longer on benefit, the Department seeks to agree instalments for recovery and where necessary may take court action or refer the debt to a private debt collection company. For those still getting means-tested benefit, rates of recovery are subject to Social Security Regulations. The recovery of fraud overpayments can vary between a maximum of £12 and minimum of £3 per week depending on whether other deductions are in force. Consequently, actual amounts recovered as a result of counter-fraud work may be a small proportion of the overpayment in that year and recovery may therefore be slow.

**12** The Department reports that the number of overpayments due to fraud and error being referred to debt centres has increased from 580,000 between April and November 2006 to 825,000 in the same period for 2007. As a result, recoveries due to both fraud and error for this period increased by 30 per cent from £144 million to £184 million. In 2006-07 the Department recovered £22 million of fraud debt out of the total £339 million fraud debt stock, compared to new fraud debt of £45 million.

## Value for money statement

Preventing and detecting benefit fraud is a high priority for the Department. Progress since 2003 has been good and represents a substantial achievement by the many dedicated staff within the Department. Estimated levels of fraud have gone down significantly since our 2003 report, from £2 billion to £800 million (approximately 0.6 per cent of benefit expenditure) although definitional changes have helped. However, the monetary loss is still a drain on public resources and the Department's accounts have been qualified for 18 years as a result of the losses due to fraud and error.

It is inherently difficult to measure the deterrent effect of individual counter-fraud interventions because they form part of a whole strategy. The Department measures the full impact of its counter fraud work through the monetary value of fraud and error, but it is impossible to quantify the impact of deterring people from making illegitimate claims.

One relevant measure is to look at the level of overpayments identified as a result of the Department's counter-fraud activities. Based on our examination of six of its largest counter-fraud activities, we estimate that the Department identified £106 million of overpayments in 2006-07 at a cost of £154 million. This suggests the Department is currently spending £1.50 to identify every £1 of overpayments. This assessment does not take account of the deterrent effect or the impact of stopping the fraud continuing, both of which are likely to be quite substantial. For example, the earlier intervention introduced through the Customer Compliance programme stops benefit fraud from continuing. Reducing the benefit in payment as a result of this activity has stopped further incorrect benefit payments of some £5.25 million per week.

Of the £106 million of fraud overpayment identified, £45 million was proven or admitted during 2006-07. £22 million of fraud debt was collected in 2006-07. However, this represents a relatively small amount of the £339 million of known fraud debt outstanding which the Department is continuing to pursue to the extent permitted by regulations.

The Department's activities are proving effective in reducing fraud and should continue. Reaching a final judgement on their cost-effectiveness will always be difficult given some of the factors set out above. However if, as we recommend, the Department can improve its ability to compare the return from different elements of its current fraud strategy, it will be in a better position to target its limited resources at the most effective measures to counter-fraud.



## Recommendations

In taking forward its counter-fraud work in the future, the Department should:

### Improve its understanding of effectiveness

*Issue: The Department's management information on fraud could be improved, which would in turn enhance its ability to assess the cost effectiveness of the approaches it uses to detect and prevent fraud. To improve its understanding of the performance of its activities and to inform its strategy, the Department needs to:*

- 1 **Develop a stronger set of management information that would enable it to assess the ongoing effectiveness of fraud and error reduction strategies (paragraph 3.8)**
- 2 **Review the cost effectiveness of the Customer Compliance approach following completion of its first full year of operation. Thereafter, regularly review the costs, performance and effectiveness of Customer Compliance in order to ensure that this approach is contributing sufficiently to reducing fraud given its costs (paragraph 3.19)**
- 3 **Introduce a time-recording system in the Prosecution Division, as used in private law firms, in order to cost different types of cases (paragraph 3.9)**
- 4 **Record the outcomes of prosecution activities by case type to enable the Department to make informed decisions about the cases it should seek to prosecute (paragraph 3.12).**

### Improve its use of resources

*Issue: A number of different directorates within the Department are responsible for counter-fraud work, each having their own process-focused targets. These do not always support each other. This means there is insufficient oversight of the entire end-to-end management of cases of fraud.*

- 5 **The Department should align its resources across different interventions to ensure the smooth flow of cases from one stage to another which should help prevent delays (paragraphs 2.22-2.24)**
- 6 **The Department should also review those targets which impact negatively on other interventions, for example, those encouraging investigation of cases that make it harder for another part of the Department to secure a positive prosecution and achieve its target (paragraph 2.29).**

*Issue: Although there are a number of process-related targets used to assess the effectiveness of the interventions, there is no central monitoring of these to ensure that they are realistic, challenging and align resources with strategic priorities. The Fraud and Error Strategy Division is not responsible for counter-fraud performance, but is best placed to have overall responsibility for the Department's counter-fraud targets. The Department should:*

- 7 **Give overall responsibility for all counter-fraud targets to the Fraud and Error Strategy Division, with clear lines of progress reporting (paragraphs 2.17)**
- 8 **Appoint a national head of Customer Compliance to lead activity across Jobcentre Plus, with responsibility for oversight of performance to ensure that Customer Compliance activity remains a priority for Jobcentre Plus managers in the regions (paragraphs 2.9)**
- 9 **Provide dedicated decision makers for fraud cases, in order to prevent undue delays where processing new claims takes priority over assessing the value of overpayments as a result of fraud (paragraph 2.22).**

*Issue: The Department's counter-fraud interventions are closely inter-connected and the outputs of one might provide inputs to another. As a result it is important to have strong links and systematic feedback throughout the process, especially where the success of one intervention may reduce or increase that of another. At present, there is insufficient feedback and learning between interventions.*

- 10 **The Department must take practical steps to create strong links and feedback loops between interventions that are directly or closely inter-connected to improve learning across and within interventions (paragraph 2.20).**

### Improve the deterrent effect of the Department's work

*Issue: The Department currently uses the value of overpayments identified as an indicator of the success of some of its counter-fraud work. This is not a reflection of how much money is recovered, which could be as low as 25 per cent. The overall deterrent effect of the Department's counter-fraud work will ultimately be reduced unless money is recovered.*

- 11 **The Department must review recovery of overpayments in fraud cases and consider setting appropriate targets for recovery from customers who have committed fraud and have come off benefit (paragraphs 3.4-3.5)**

*Issue: Since the introduction of the customer compliance model, more cases of suspected fraud are being reviewed by the Department. However, there is a risk that as this model becomes established, and more lower level frauds are dealt with this way, the Department's hard message of prosecuting fraudsters may be eroded.*

- 12 The Department should communicate with claimants that cases dealt with through Customer Compliance are serious and may be subject to a fraud investigation should further evidence come to light or should the fraud be repeated (paragraph 2.11).**

## Assessment of implementation of recommendations

To enable prioritisation of these recommendations and allocation of the Department's limited resources, we have set out below our assessment of the impact these recommendations might have. In the table we have assessed the likely costs of implementing the recommendations and the length of time we would expect it to take the Department to implement. We have also provided an indication of how soon improvements might be seen once the recommendation is implemented. This is the National Audit Office's assessment, and does not take into account issues of capacity that the Department faces or the availability of resources.

Recommendation	Cost to implement	Time to implement	Time lag before an effect	Estimated scale of effect	Responsibility
Quick wins					
1 Management information	Low	Short	Medium	Medium	Department
2 Assess Customer Compliance effectiveness	Low	Short	Short	High	Agency
3 Prosecution time recording	Medium	Short	Short	Medium	Department
4 Record type of case prosecuted	Low	Short	Short	High	Department
10 Create feedback loops	Low	Short	Long	Medium	Department
12 Advertise Customer Compliance	Medium	Short	Long	Medium	Department
Longer term changes					
5 Align internal targets	Low	Medium	Long	High	Department
6 Review impacts which impact negatively on others	Low	Medium	Medium	High	Department
7 Single owner of targets	Low	Medium	Long	Medium	Department
8 National head of Customer Compliance	Low	Medium	long	Medium	Agency
9 Review decision maker input	Low	Medium	Long	Medium	Agency
11 Establish overpayment recovery target	Low	Medium	Medium	High	Department

### NOTES

Key to recommendation assessment:

Cost to implement/scale of effect: This is a relative assessment and would be dependent on the Department's availability of resources in light of budgets and competing pressures.

Time to implement: Short = less than 6 months; medium = 6–18 months.

Time lag before effect: Short = less than 6 months; medium = 6–18 months; Long = 18 months–3 years.

# PART ONE

## What is benefit fraud and what progress has been made in tackling it?

**1.1** Benefit fraud is a crime and undermines public confidence in the benefits system. Tackling the problem remains a key objective of the Department for Work and Pensions (the Department), whose main accounts have been qualified for the last 18 years due to the estimated levels of fraud and error. In 2006-07, 614,000 cases of suspected fraud were identified compared with 604,000 in 2005-06. The total value of estimated fraud was down from some £2 billion (to the nearest £0.5 billion) in 2001-02 to £800 million in 2006-07 (to the nearest £0.1 billion). This represents good progress but is still a significant diversion of public money from the purposes intended by Parliament. This chapter defines fraud and examines actions taken by the Department since we last reported in 2003.

**1.2** Most fraud involves individual customers lying about their circumstances to increase their entitlement to benefit. People may commit fraud for a variety of reasons including “need”, greed or opportunism, and often justify it by arguing it is a victimless crime.<sup>3,4</sup> Examples of common frauds against the benefit system are at **Figure 4**.

**1.3** Whilst official error is often attributable to administrative failure, fraud and customer error are harder to separate as the key factor is proof of fraudulent intent. The segregation of fraud and customer error estimates will always be subjective, as it is often difficult to prove fraudulent intent. While fraud appears to have reduced by more than 50 per cent, the level of error has actually risen from £1.1 billion in 1997-98 to £1.9 billion in 2006-07. Error rates are believed to be attributable to the complexity of benefit rules,<sup>5</sup> as well as the consequences of organisational change. We will examine the measures to tackle error in a future report.

### 4 The most common benefit frauds (in Income Support, Jobseeker’s Allowance and Pension Credit, October 2005–September 06)

Type of fraud	Value of fraud, £ million
Claiming as a single person, but living with a partner as husband and wife	74
Fraud committed by customers living abroad	74
Undeclared earnings	70
Not at address	46
Undeclared capital	32
Other undeclared income	21
Dependants	16
Undeclared partner’s earnings	14
Undeclared maintenance payments	5
Undeclared other benefits	5
Prison	3
Claimant at college	1
Other <sup>1</sup>	12

Source: Department for Work and Pensions

#### NOTE

<sup>1</sup> The Department has recently revised the ‘Other’ category in order to provide more precise estimates.

<sup>3</sup> Research in 1995 categorised benefit fraudsters according to their anxiety about the fraud. Some justified their fraud and rationalised their actions, whereas others offered shallow justifications for their opportunist actions, or felt little need to justify their fraud. See Dean, H and Melrose, M (1995) Manageable Discord.  
<sup>4</sup> SPARK (2004) *A review of the DWP benefit fraud sanctions regime*, Department for Work and Pensions.  
<sup>5</sup> *Dealing with the Complexity of the Benefits System*, National Audit Office, HC 592, 2005-06.



## The estimated level of benefit fraud has gone down significantly since 1997-98

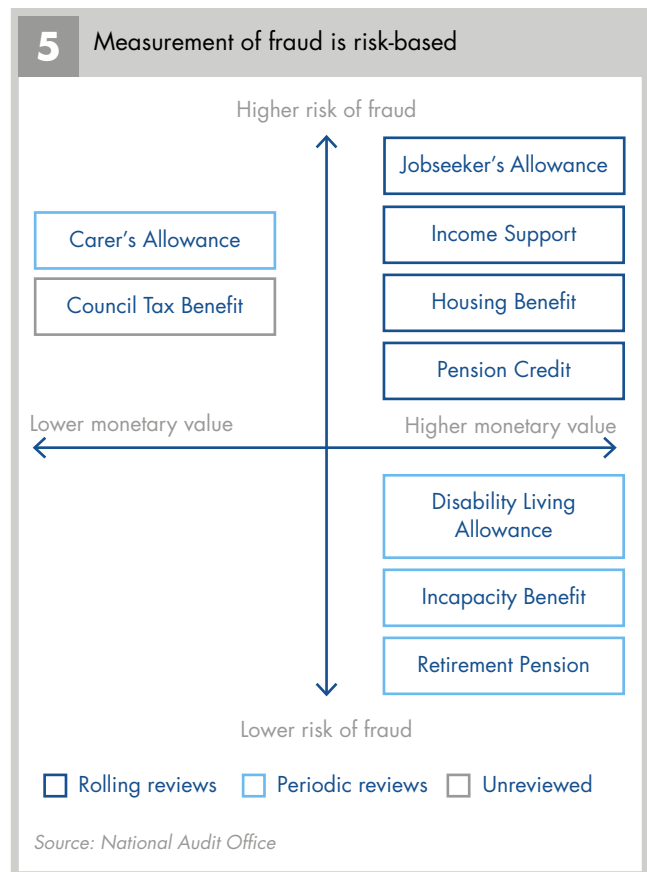
**1.4** From 1998, estimated overpayments due to fraud were reported consistently (to the nearest £0.5 billion) at £2 billion. However, changes in methodology in 2004-05 led to improved accuracy in measurement, allowing the figure to be quoted to the nearest £0.1 billion. In addition, in 2005, the Department identified over £700 million worth of Disability Living Allowance and related payments it considered should not be classified as fraud or error overpayments, and removed them from the estimates.<sup>6</sup> This change was reported in the Department's audited accounts for 2004-05.

**1.5** Our 2006 report *International benchmark of fraud and error in social security systems*<sup>7</sup> considered the Department is at the forefront of measuring welfare loss through fraud. We reported that whilst the United Kingdom has levels of social security fraud and error similar to those in comparable countries, which face many of the same problems, the Department for Work and Pensions has a better understanding than agencies in other nations of these problems, and is doing more to tackle them. The Department's estimates are based on a range of evidence, covering all significant benefit types on a cyclical basis. The frequency and detail of the work undertaken is proportionate to the value of expenditure and the assessed likelihood of fraud and error occurring in each benefit type (Figure 5).

**1.6** Being able to examine local variations is important. Our 2003 report *Department for Work and Pensions: Tackling benefit fraud*, found a high level of variation in fraud across the country. The latest estimates indicate there remains some variation but the extent has reduced since 2002-03. However, the size of the sample of cases examined can only distinguish regional variations; reliable data is not available at district or office level (Appendix 3).

**1.7** In 2006-07, an estimated £800 million was lost due to fraud, around 0.6 per cent of total benefit expenditure (Figure 6). Fraud in centrally administered benefits has reduced significantly since 1997-98, although the estimated figure for 2006-07 shows a slight increase (Figure 7). The Department reported that it has met its target to reduce Income Support and Jobseeker's Allowance fraud and error by 50 per cent by 2005-06. Under the 2004 Spending Review, it has a target for a further 15 per cent reduction by 2010 against a 2006 baseline.

**1.8** Around two-thirds of estimated fraud can be attributed to those four main benefits subject to continuous measurement: Jobseeker's Allowance, Income Support, Pension Credit, and Housing Benefit. Estimated losses to fraud in these four benefits remained constant between 2005-06 and 2006-07 at around £530 million. Longer term, the Department estimates that since 1997-98, fraud in Jobseeker's Allowance has fallen from £300 million to £60 million in 2006-07.



<sup>6</sup> The Department changed its fraud and error measurement methodology around Disability Living Allowance, whereby it identified a specific group of cases in which payments were correctly made based on the case information available at the time, but where a case review would be expected to lead to a reduction in payment due to a gradual improvement of the person's condition. A total value of £0.7 billion (£580 million from DLA cases and an additional £120 million from other related overpaid benefits), which had previously been erroneously included, is therefore not included in the restated global fraud and error estimate. See Figure 3. *Department for Work and Pensions Resource Accounts 2004-05*, HC 477, 2005-06.

<sup>7</sup> National Audit Office, HC 1387, 2005-06.

## 6 Estimated losses due to fraud 2006-07

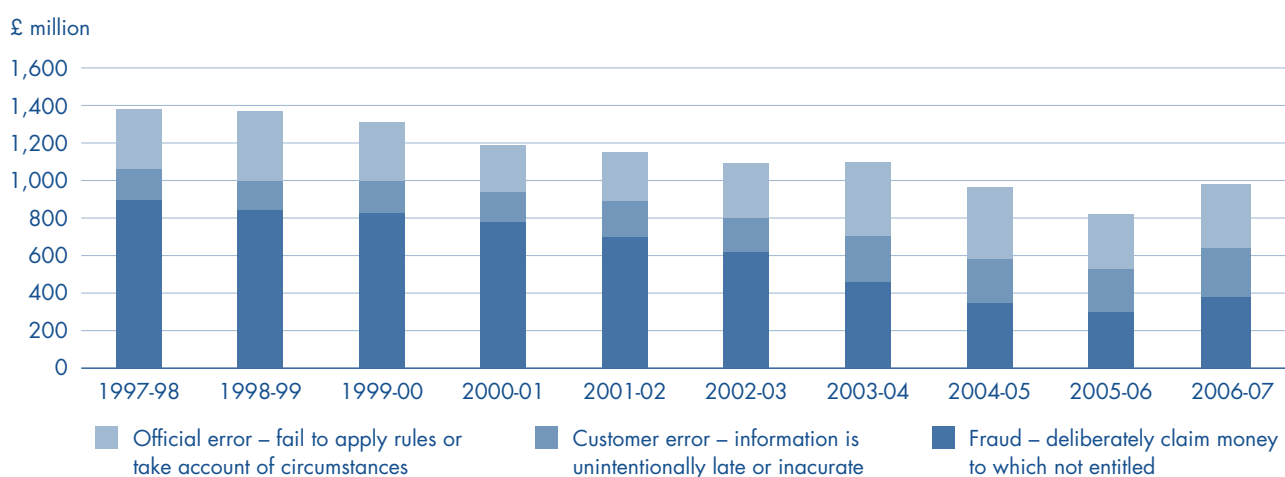
Regularly reviewed	Expenditure £m	Estimated fraud £m	Estimated fraud as percentage of expenditure
Income Support	9,100	210	2.3
Jobseeker's Allowance	2,500	60	2.3
Pension Credit	6,900	110	1.6
Housing Benefit <sup>1</sup>	14,900	150	1.0
<b>Periodically reviewed (date of estimate)</b>			
Disability Living Allowance (2005)	9,200	40	0.5
State Pension (2006)	53,700	0	0.0
Carer's Allowance (1997)	1,200	50	3.9
Incapacity Benefit (2001)	6,600	10	0.1
Instrument of Payment fraud (2006)	n/a	10	
Interdependencies (2005)	n/a	10	
<b>Statistically assessed</b>			
Council Tax Benefit	3,900	30	0.9
Other unreviewed benefits	11,800	70	0.6
<b>Total</b>	<b>119,800</b>	<b>800</b>	<b>0.6</b>

Source: *Fraud and Error in the Benefit System, October 2005 to September 2006, Department for Work and Pensions, December 2007*

### NOTE

1 Since 2002-03 Housing Benefit fraud has reduced from £250 million to £150 million, but overall fraud and error, including official and customer error, has risen by seven per cent to £820 million and the Department will not meet its PSA target to reduce fraud and error in Housing Benefit by 25 per cent by 2005-06.

## 7 Monetary value of fraud and error for continuously measured DWP administered benefits (Jobseeker's Allowance, Income Support, Minimum Income Guarantee/Pension Credit)



Source: *Department for Work and Pensions, Information Directorate*

### NOTE

Figure 7 shows that estimated overpayments due to fraud have reduced significantly since 1997-98 in the three continuously measured benefits administered by the Department. The 2006-07 data is an estimate, based on measurement up to September 2006, produced using an improved methodology (*Fraud and Error in the Benefit System, October 2005 to September 2006, Information Directorate, Department for Work and Pensions*). It shows a slight increase in fraud in 2006-07.

**1.9** There has been good progress overall by the Department in reducing the estimated value of benefit fraud, including Housing Benefit fraud. However, the Department has not met its Public Service Agreement target on Housing Benefit for working-age due to increasing levels of error. Housing Benefit fraud for the whole caseload has reduced by around half since 2002 to 1.0 per cent of expenditure in September 2006, which has been a substantial achievement. However, official error has increased by around a quarter to 1.4 per cent of expenditure. Customer error has increased by around a half and now accounts for more than fraud and official error combined (2.8 per cent of expenditure). Housing Benefit (and Council Tax Benefit) schemes are administered on behalf of the Department by 408 local authorities. The Department is responsible for policy and legislation, and for paying subsidy to local authorities for the administration and benefit costs. Annual expenditure in 2006-07 on Housing Benefit was approximately £14.9 billion and there were over 4 million claimants in November 2006. In 2006-07, local authorities recovered around £350 million worth of Housing Benefit debt which was due to overpayments arising from fraud and error. Local authorities are incentivised to recover overpayments by being permitted to keep the monies collected.

## The Department has well-defined strategies for tackling benefit fraud

**1.10** The Department's approach to tackling fraud dates from the 1999 White Paper.<sup>8</sup> Its activities fall under four programmes of work:

- **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 action to put them right; and
- **Making sure the strategy works** – monitoring progress and evaluating the strength of preventative measures.

**1.11** We last reported on tackling benefit fraud in 2003.<sup>9</sup> Our recommendations addressed the following main themes:

- focusing on higher risk activity and addressing a decline in the fraud prevention and investigation activity;
- improving the quality of management information, including on the costs and results of interventions;
- innovating and sharing good practice in checking claims;
- greater compliance across the regions with new initiatives and guidance;
- improving assessment of the impact of different interventions;
- increasing the number of prosecutions and assessing the success of other deterrents and sanctions to prevent fraud.

The Department's responses to the recommendations of the Committee of Public Accounts are summarised in Appendix 2, and we report on progress throughout this report. Although some specific action has been taken by the Department, there remains a considerable amount of work to do before the recommendations are fully addressed. A timeline of the main developments is at **Figure 8**.

### 8 Timeline of main developments introduced by the Department since 2003

- 2004** – The advertising campaign has further developed its message to target specific groups of fraudsters.
- 2004** – *A review of the DWP benefit fraud sanctions regime (SPARK)* published.
- 2005** – *Reducing fraud in the benefits system: achievements and ambitions* strategy published.
- 2006** – Restructuring of the Counter-Fraud Investigation Service into Fraud Investigation Service and Customer Compliance.
- 2006** – Programme of modernisation in place for the Database and Matching Service to provide a more timely Data Matching Service.
- 2007** – Trialling of voice risk analysis with a view to rolling out across local authorities and Jobcentre Plus.
- 2007** – Introduction of new fraud case management system called FRAIMS to streamline, coordinate and speed up the management of fraud cases.

Source: National Audit Office

<sup>8</sup> *A new contract for welfare: safeguarding social security*, Department for Work and Pensions, March 1999, Cm 4276.

<sup>9</sup> Comptroller and Auditor General (2003), *Department for Work and Pensions: Tackling benefit fraud*, HC 393 Session 2002-03.

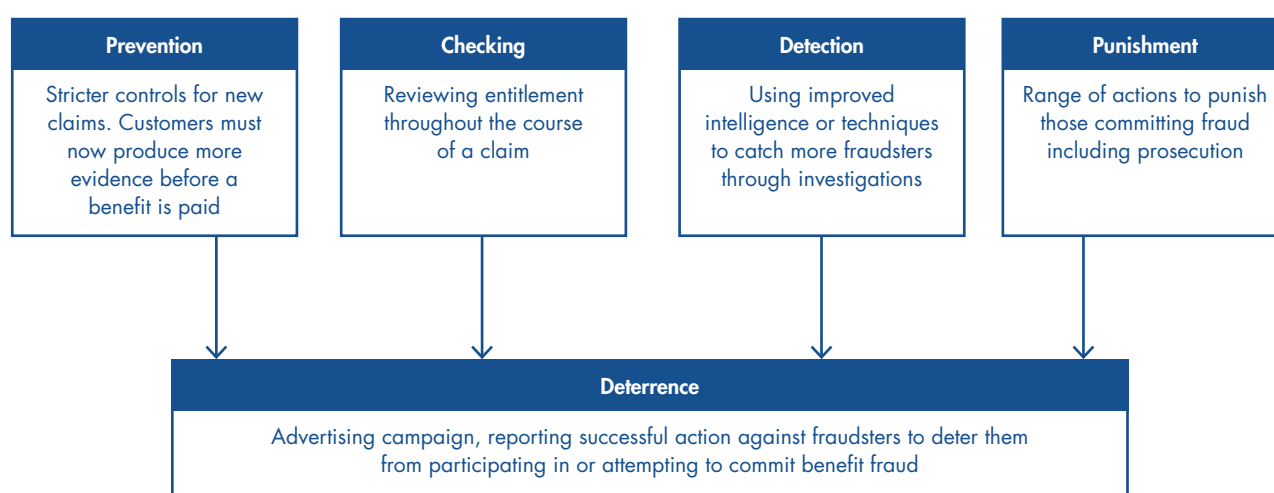
## What this report examines

**1.12** This report examines the progress made by the Department in tackling benefit fraud since we last reported in 2003. The Department's remit covers the whole of Great Britain, and we have included a regional analysis at Appendix 3. We have highlighted the importance of an integrated strategic approach to tackling fraud elsewhere<sup>10</sup> (Figure 9). We examined six key elements of the counter-fraud strategy<sup>11</sup> (referred to throughout as 'interventions') to assess whether the Department is using the most cost effective methods to reduce fraud. The interventions

– set out in Figure 10 and in more detail in Appendix 4 – were chosen because they account for the majority of the Department's specific activities to counter fraud. In particular, we:

- assessed the effectiveness of these six counter-fraud interventions; and
- costed them and examined whether they provide value for money. This was a recommendation that the National Audit Office and the Committee of Public Accounts made in 2003 but which the Department has not been able to achieve.

### 9 Activity under the elements of an integrated strategic approach



Source: National Audit Office

### 10 We examined six main interventions in detail

Area	Initiative	Description
Deterrence	'Targeting Benefit Thieves' advertising campaign	Television, radio and newspaper campaign which aims to deter fraud and change attitudes towards it
Prevention	Customer Compliance	Interviews to enforce customer responsibilities
Detection	National Benefit Fraud Hotline	Information from the public assists the Department in identifying and investigating suspected fraudsters
	Data Matching Service	Compares records with data held by the Department and other Government departments to identify potential fraudulent cases
Investigation	Fraud Investigation Service	Investigates suspected cases of fraud and collects evidence to be used in criminal prosecution
Punishment	Prosecution Division	Where fraud value is less than £2,000 a caution or fixed penalty of 30 per cent is usually imposed. More serious cases are prepared for and taken to court by the Prosecution Division

Source: National Audit Office

<sup>10</sup> In the NAO-Treasury guidance, *Good Practice in Tackling External Fraud*, available at [www.nao.org.uk/guidance](http://www.nao.org.uk/guidance).

<sup>11</sup> *Reducing fraud in the benefit system: Achievements and ambitions*, Department for Work and Pensions, October 2005.

More details of the methodology are set out in Appendix 1.

**1.13** The Department does not know the exact costs of implementing the strategy, but we estimate that in 2006-07 it spent around £154 million on the six specific counter-fraud activities we examined (Figure 10).

**1.14** We have limited our examination to the Department's progress in tackling fraud and this report does not examine error in the benefits system. Tackling error is a significant challenge for the Department and we will revisit the topic in a future report when recent developments have had a chance to take effect. This report also does not explicitly examine Housing Benefit, which is not administered by the Department but by local authorities. However, a number of the interventions examined provide services for local authorities in tackling Housing Benefit fraud.

# PART TWO

## How effective are the Department's interventions for tackling benefit fraud?

**2.1** This part assesses the effectiveness of the Department's six interventions for reducing fraud that we examined (described in detail in Appendix 4), highlights the progress made and identifies the obstacles to further progress.

The Department has increased its efforts to deter fraud but more needs to be done to identify a greater proportion of the £800 million lost to fraud

**2.2** Overall, good progress has been made in reducing the estimated value of benefit fraud from a reported £2 billion in 1997-98 to a reported £800 million in 2006-07. This in part is due to a restatement in 2004-05 of £700 million of Disability Living Allowance and related payments which the Department considered should not be classified as fraud overpayments (see Figure 3). There remains further work (covered in this chapter) to:

- deter fraudsters and prevent fraud from getting in the system;
- manage the flow of cases;
- ensure the flexibility and accuracy of the intelligence-led, risk-based approach to investigating fraud;
- oversee all counter-fraud work and improve feedback;
- prevent delays;
- align targets for the counter-fraud interventions; and
- understand better the demand for sanctions from one part of the Department to the other.

The Department has increased its efforts to deter fraudsters and prevent fraud from getting into the benefits system in the first place

**2.3** Since 2001, the Department has run advertising campaigns to discourage benefit fraud and try to make it socially unacceptable. In our 2003 report, we acknowledged the importance of publicity in tackling fraud, and the Department has since launched its second campaign wave, "No ifs, no buts" (Figure 11). Research for the Department<sup>12</sup> suggests that between 2005 and 2006 there was an increase from 75 to 83 per cent of people who strongly agree that it is wrong to claim benefits to which they are not entitled.

**11** The recent advertising campaign, "No ifs, no buts", uses the press, television, radio and other media to put across its key messages. These are that:



- The Department will not tolerate benefit fraud
- Benefit fraud is a crime
- Benefit thieves will be caught and punished
- Benefit fraud is not socially acceptable

Source: National Audit Office

12 Research commissioned by the Department undertaken by GfK NOP, an independent media analysis research company.

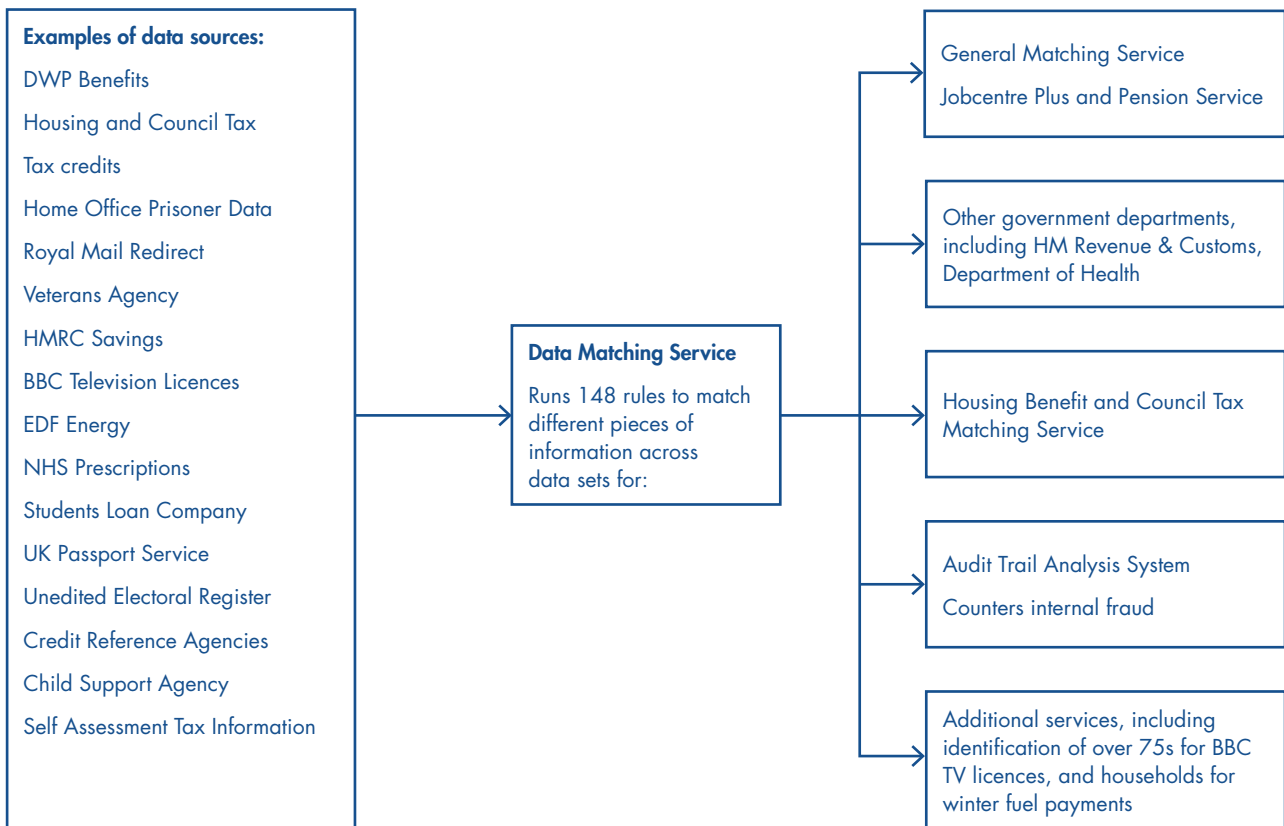
**2.4** We noted in 2003 that there was considerable variation across the country in the use of checks to prevent fraud in the first place. The Department now carries out more checks at the outset of a claim for benefit, into both customers’ identities and circumstances. This work is undertaken within the Department’s Jobcentre Plus offices and 77 benefit processing centres. During 2006-07, around 250,000 in-payment claims were checked for accuracy and 13,000 claims were checked before any payment was made. Instrument of payment fraud (arising through theft and forgery of payment documents such as Girocheques and benefit order books) is now less of a problem as the Department pays benefits directly into most customers’ bank accounts. The Department is also tackling the problem by:

- making some manual checks at point of claim, categorised according to risk;
- increased use of risk profiling to target investigations to high risk cases;
- tighter controls on the allocation of National Insurance numbers; and

- using Jobcentre Plus financial assessors to ensure benefits are correctly paid to the right person from the outset.

**2.5** The Department has made extensive use of data matching and risk profiling to tackle the risk of fraud and error. It uses a wide range of data sources from both the public and private sectors (**Figure 12**). Sharing of data with HM Revenue & Customs in particular has increased the power and effectiveness of this approach. At present, the Department’s approach to data matching is more reactive than proactive, responding to requests from different internal agencies (such as Jobcentre Plus and The Pension Service). Data is matched based on existing caseloads rather than at the point of claim, although point of claim matching is a potential area for future development (**Figure 13**). The Department currently has a modernisation programme of its Data Matching Service, to be completed in 2008, which aims to prevent fraud from entering the system in the first instance. The Department is also trialling data matching with credit reference agencies, which it forecasts could save between £8 to £26 million a year by the early detection of common “living together” frauds.

**12** The Data Matching Service uses a wide range of data sources to help detect fraud



Source: National Audit Office



A data matching pilot with credit reference agencies has been run in the East Midlands and the Department is now preparing to roll it out nationally. Another major development is the Department's move from gathering data by type of benefit, to data about customers, for which it has created a data warehouse.

**2.6** The Department is also funding the trialling of voice risk analysis software in the benefits system to identify possible higher risk claims (**Figure 14 overleaf**). It hopes that the use of voice risk analysis will speed up claims for genuine claimants, as well as reduce costs and better manage risks.

## There is an intelligence-led, risk-based approach to investigating fraud but it is not clear yet how effectively this is working

**2.7** Our 2003 report found that fraud investigation teams identified more cases of fraud meriting investigation than they had the resources to deal with. Around 108,000 cases were placed in 'referral overload' in 2001-02 (around 16 per cent of annual referrals) and were not examined at all. To deal with this problem, the Department restructured its Counter-Fraud Investigation Service in 2006 into two areas: the Fraud Investigation Service and Customer Compliance (**Figure 15 overleaf**). The Department introduced Customer Compliance to provide an opportunity to rectify low level fraud quickly.

**2.8** To determine whether fraud referrals should be dealt with by the Fraud Investigation Service or by Customer Compliance, the Department uses a risk assessment tool, the Fraud Referral and Intelligence Scoring Card (FRISC). The Department estimates that staffing costs for FRISC were £2.7 million in 2006-07. Cases referred for full investigation can be further filtered, and those assessed as unlikely to result in a penalty are passed to Customer Compliance. In accordance with legislation, cases sent directly to Customer Compliance cannot be passed back for full investigation unless new and substantial evidence is identified. FRISC can be inflexible and result in some cases being sent for inappropriate action. This can be a problem if high value cases are first sent to Customer Compliance, as they are not easily upgraded to a full fraud investigation. In 2006-07, around 107,000 cases were referred directly to Customer Compliance and there was no longer a category of 'referral overload' as all cases are now subjected to Departmental scrutiny, reducing the proportion of cases not investigated. In 2006-07, 10,000 more cases were examined through both fraud investigation and compliance activity than in 2005-06

### 13 Data Matching Transformation Programme

The Department is currently modernising its database and matching service to deliver a more timely and streamlined service to its customers. The objectives are to:

- modernise the extraction of data from data systems to provide electronic transfer, cutting down on clerical and manual interventions;
- operate a fraud and error referral system from a modern IT platform which allows new risk analysis techniques to be used;
- provide an integrated service centred around the customer rather than the product; and
- provide more frequent and timely referrals.

Funding for the modernisation programme is through reprioritising spending within the Data Matching Service as well as through investment from DMS customers. The modernisation also means that targets for the service will also increase to identifying £200 million in overpayments and a hit rate for referrals to 40 per cent in 2007-08.

The programme aims to provide regular and timelier feeds into the data matching system to prevent frauds from being in the system for long periods of time. Fraudsters are therefore more likely to be caught sooner, and overpayments reduced as a result.

*Source: National Audit Office*

through fraud investigation alone. The introduction of FRAIMS, the Department's new case management system (see paragraph 2.13), will see an automated application of the referral scoring test in every case.

**2.9** When the Counter-Fraud Investigation Service was split, the Department expected that, to make best use of resources and realise the benefits of the new approach, 60 per cent of referrals initially sent to fraud investigation needed to be referred for compliance activity, not including those identified through data matching. The remaining 40 per cent of cases would be taken forward by the Fraud Investigation Service. In 2006-07 (the first full year of compliance activity), only 33 per cent of the Fraud Investigation Service's caseload was subsequently sent for compliance activity. The reasons given during our examination were:

- fraud investigators are unlikely to refer cases until their own targets could be met;
- some fraud managers pick easier cases to achieve sanctions targets, which may be more appropriate to send to Customer Compliance; and
- compliance was not well understood by Jobcentre Plus managers, who were not prepared for taking on their new role.



## 14 Voice Risk Analysis is being trialled to identify the level of risk associated with claims

Voice Risk Analysis (VRA) is used by the insurance industry to speed up the processing of claims and to identify possible higher risk claims. The technology detects minute changes in a caller's voice caused by stress levels which give signs as to when the caller may be lying about their circumstances. It then assigns a risk profile to that caller. This prompts the call handler to probe more deeply into the information provided by the caller. There has been some criticism about the use of VRA for the purpose of tackling fraud with it being described as a lie detector and risking deterring genuine customers from claiming benefits.

Source: National Audit Office

The technology is being trialled by the London Borough of Harrow on Housing Benefit and Council Tax Benefit claims. The Department will then test it in Jobcentre Plus offices. A budget of £60,000 held by the Fraud and Error Strategy Division was used to fund a test of the technology for compatibility with existing systems in a Jobcentre Plus office. Wider testing is due to be carried out in 15 local authorities, expected to cost around £500,000, and will include new claims and fraud referrals, as well as reviews of in-payment claims. The Department expects to evaluate the technology in 2008 and has commissioned social research into the customer experience and whether or not it deters genuine customers from claiming benefits. Following this evaluation, the Department will assess whether the technology should be rolled out more widely.

## 15 The Department changed its approach to fraud investigation in 2006

The **Fraud Investigation Service** is a national, shared Departmental service, located within Jobcentre Plus, which investigates potential fraudulent attacks against all benefits owned by the Department or administered on its behalf. It concentrates on those cases that are likely to result in a sanction. Fraud investigation is delivered through regional teams, although there is also a national Organised Fraud unit to deal with the most serious attacks on the benefits system, and a national Operational Intelligence Unit to provide evidential support for fraud investigators.

**Customer Compliance**, which was introduced in April 2006, deals with cases where a full criminal investigation is not deemed appropriate but where action is needed to: identify levels of incorrectness; put it right and recover any overpayment; and ensure future compliance. The approach involves a face to face interview with customers in receipt of benefit. Customer Compliance does not have a national structure like the Fraud

Source: National Audit Office

Investigation Service, but is delivered locally and compliance staff are managed by Jobcentre Plus managers. Customer Compliance staff are made up largely of those transferred out of the Fraud Investigation Service. According to protocol, Customer Compliance should be delivered separately by each Jobcentre Plus office, under the control of the manager (decentralised model). However, some areas are delivering compliance through a single team which covers several Jobcentre Plus offices (centralised model). Responsibility for Customer Compliance falls to the Customer Services Director of Jobcentre Plus.

The approach is intended to direct valuable investigation resources effectively to deal only with the most likely cases of sanctionable fraud. Earlier intervention by Customer Compliance seeks to reduce the overall value of individual overpayments. Low level suspected frauds are expected to be dealt with more cost effectively by a compliance interview.

**2.10** In its first year of operation Customer Compliance did not perform according to expectations, and the expected benefits have yet to be fully realised. Although still relatively new, from January to March 2007 Customer Compliance performance improved and early indications from 2007-08 suggest that improvements are continuing. In 2006-07, Customer Compliance investigated 293,000 cases, of which only 33 per cent (95,673 cases) have to date resulted in changes in benefit entitlement, against a target of 135,000 cases. Only one region (Yorkshire and the Humber) has managed to meet both of its compliance activity targets. This was one of two pilot areas for Customer Compliance in 2005-06. In part, this can be explained by the lower volume of referrals received against the profile. Although compliance staff receive cases directly from the Data Matching Service, the majority are expected to be referred by Fraud Investigation

Service staff once they have initially assessed cases and concluded that they are unlikely to result in a sanction. The 2007-08 target was revised down to 107,000 from 135,000 in 2006-07. However, until the volume of cases referred to them increases, compliance staff will continue to struggle to meet targets.

**2.11** Customer Compliance is visible to customers as face to face interviews are often carried out in their houses. Those suspected of benefit fraud who have already received a compliance interview for a previous offence are automatically referred for criminal investigation. The risk that over time Customer Compliance may reduce the deterrent effect of the Department's overall counter-fraud activity if more fraudulent claimants are not subject to criminal investigation or given a sanction should be mitigated by the advertising campaign if, as intended,

customers are left in no doubt that “benefit fraudsters face a criminal record”. It is important that the Department continues to make sure customers understand that Customer Compliance is not a soft option, so that it does not lose its deterrent effect.

## The Department does not yet manage effectively the flow of cases but a new system has just been introduced

**2.12** Our 2003 report expressed concerns about the management information available to the Department. Traditionally, it has used a number of different IT systems, all of which required manual input. These systems were not integrated and were often regionally based. The various systems relied on re-keying of data, frequently more than once, leading to delays and errors. The lack of an integrated system further increased the risk of inconsistency in countering fraud through:

- each team managing workloads in different ways;
- difficulty in analysing intelligence held in separate systems to establish a complete national picture around trends and effective targeting of resources;
- difficulty in establishing a national position where data are held locally; and

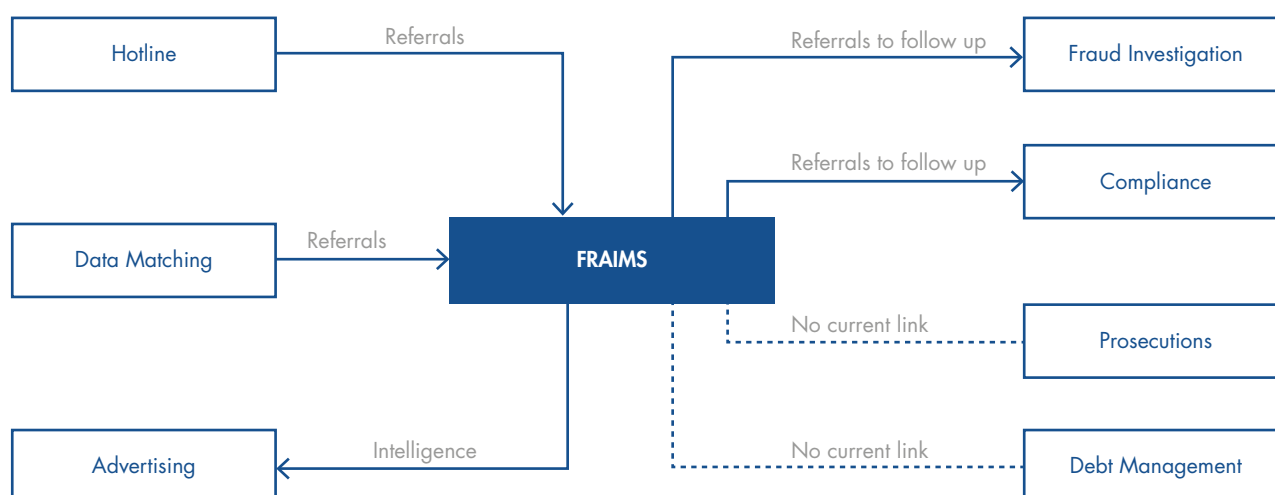
- (more recently) increased risk of concurrent investigations between the Fraud Investigation Service (area fraud investigations and Organised Fraud investigations) and Customer Compliance.

**2.13** To address these problems, the Department has developed the Fraud Referral and Intervention Management System (FRAIMS) (**Figure 16**), which was introduced in one region in June 2007. Full roll-out was expected by October 2007 but is now being staggered over a longer period to take account of the complexity of the system, and is now not expected to be in place until March 2008. The system is expected to cost £65 million and the Department forecasts staff savings arising of around £10 million per year from 2008-09 to 2013-14 and a headcount reduction of around 400.

**2.14** Although streamlining fraud case management, FRAIMS does not cover all stages of the lifecycle of cases. At present, it does not support the counter-fraud activities of Prosecutions and Debt Management. Furthermore, due to the long delays in the project, there is scepticism amongst counter-fraud staff about how effective it will be in delivering the expected improvements, such as documenting old case information.

## 16 FRAIMS

The Fraud Referral and Intervention Management System (FRAIMS) is a new integrated national database system developed by the Department to track and manage fraud cases better. It manages cases for Customer Compliance and the Fraud Investigation Service, and receives referrals from the Hotline, Data Matching Service and Departmental staff. It also provides management information to the fraud policy teams and Advertising. It was trialled in one area in June 2007, although full roll-out has been delayed until March 2008.



Source: National Audit Office

**2.15** Suspected cases arise in three main ways (Figure 17): from the public, for example through the Hotline, through the Data Matching Service and from departmental staff. Together these sources account for nearly 90 per cent of referrals. Details of the Data Matching System and the Hotline are in Appendix 4. Of the suspected cases of fraud generated in 2006-07, 48 per cent (215,635 cases) were initially accepted for criminal investigation, and 24 per cent (105,962 cases) sent for a compliance interview. The remaining 28 per cent (125,017 cases) were categorised as ‘no fraud action’ and not investigated because, for example, there was insufficient information for further investigation, it was a duplicate referral, or the individual was not claiming benefit. Total sanctions recorded for April to September 2007 show a 16 per cent increase from 17,000 to around 19,000 compared to the same period in 2006.

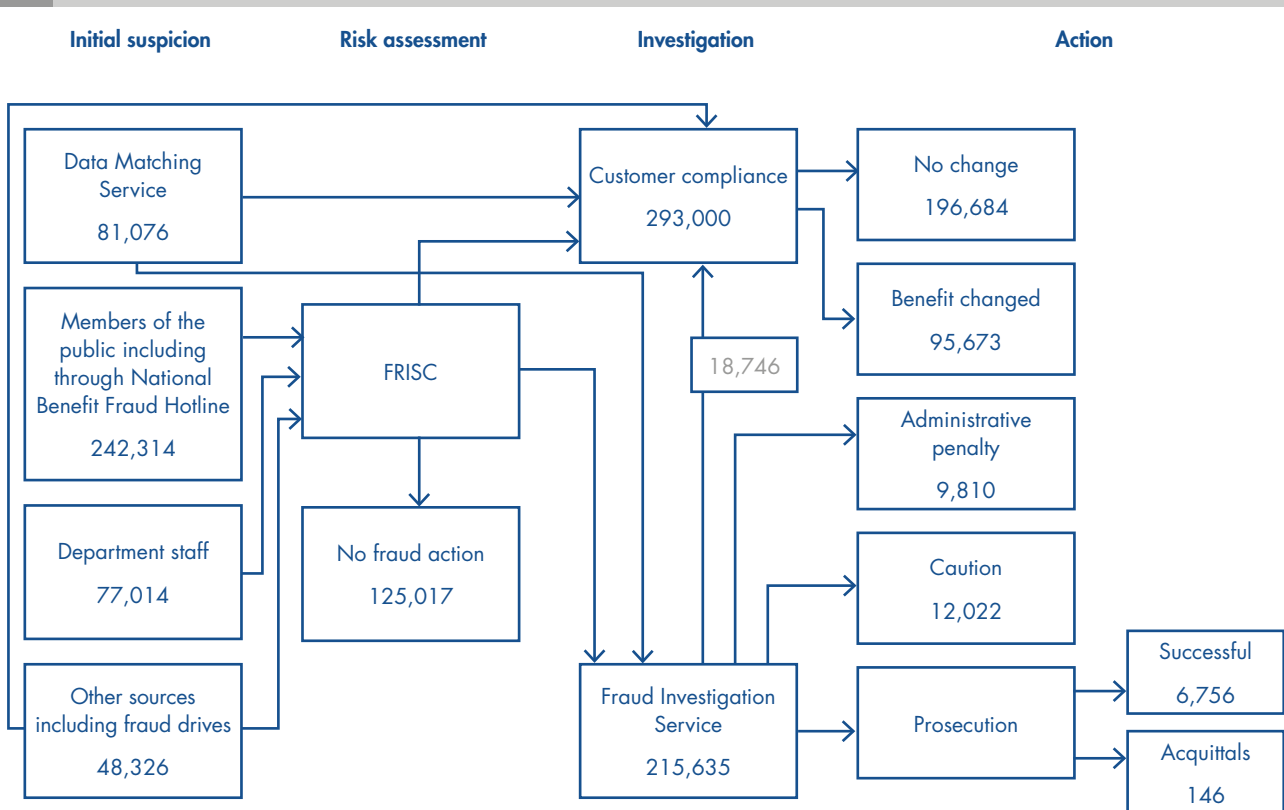
**2.16** Although the advertising campaign is not seeking to increase referrals to the Hotline, the Hotline is the most direct way the public interact with the Department

to report fraud. In the past its telephone number has not been included in all the advertising as the rest of the Department does not have the capacity to investigate all referrals and the quality of referrals decreases when the telephone number is promoted heavily. Some material in the Department’s campaign in summer 2007 included the Hotline number.

### No single part of the Department oversees all counter-fraud work, and feedback is often poor

**2.17** No single part of the Department has effective oversight or control of all counter-fraud work. The strategy is developed by central policy teams in the Department, primarily the Fraud and Error Strategy Division and the Housing Benefit Strategy Division, but they are not responsible for delivery or performance. In 2006-07, the Fraud and Error Strategy Division estimates it spent £669,000 on fraud strategy activities, using

**17** The flow of cases through the counter-fraud system, 2006-07



Source: National Audit Office analysis of data from Department of Work and Pensions and Jobcentre Plus

**NOTE**

These data were collated from individual interventions. There are some differences within the data as it is drawn from different sources. As it takes time to progress cases from referral to closure, some outcomes will refer to cases submitted in the previous year.

11.5 members of staff. The Division participates in wider cross-Government counter-fraud activities, such as developing policy with the Home Office, HM Revenue & Customs, the criminal justice sector and taking forward work arising from the National Fraud Review. Counter-fraud activities are spread across the Department and Jobcentre Plus, within six different directorates,<sup>13</sup> and involve over 4,000 staff directly. Within Jobcentre Plus, the Chief Operating Officer has accountability for the Fraud Investigation Service, Customer Compliance and the Hotline. More widely, the Department considers that all its staff have a responsibility to tackle fraud.

**2.18** There are several organisational problems which arise from this structure. The Prosecution Division, although located within the Department, has an independent status as a prosecuting body, and it is not seen as an integral part of counter-fraud work. Jobcentre Plus has developed a standard operating model to support the organisational position of Customer Compliance, which is delivered regionally through District Jobcentre Plus teams, for whom compliance is one of many priorities. However, there is little clarity about the standard operating model, as for instance there is inconsistent delivery across the country and some regions have developed their own model.

**2.19** We would expect counter-fraud activity to be delivered by several directorates. However, a fragmented structure will only be successful if there are strong lines of feedback running within and between the interventions. This is particularly important for a new activity such as Customer Compliance, but this does not yet appear to be in place. This is partially due to a lack of consistent delivery across the country and of limited coordination. Some regions have developed their own model, making comparisons of effectiveness difficult, and there is little centrally held management information on resourcing. A centre of excellence has now been developed within Jobcentre Plus, but is not responsible for staff management or performance. Until FRAIMS is in place, the Department is unable to determine accurately the outcomes and results of its Customer Compliance activity, making it difficult to assess the success of the work.

**2.20** All the counter-fraud interventions examined are linked but there is a lack of systematic feedback between interventions even where they impact directly upon one another (**Figure 18 overleaf**). There is also limited systematic sharing of information between regions. The result is that the knowledge of successful activities – for example, fraud drives in particular employment sectors,

such as adult chat lines or door security – trialled by some regional teams is not used to its full potential. In addition, although staff are clearly dedicated to their work, are motivated and feel proud of their contribution to securing the integrity of the benefits system, some did not consider themselves part of a wider counter-fraud community.

**2.21** The Department is required to achieve efficiency savings across its business, including counter-fraud. By 2007-08, it needs to reduce its workforce by 30,000, in addition to redeploying 10,000 staff to frontline roles, and deliver annual savings of at least £960 million. As with all parts of Jobcentre Plus, there is localised pressure across all the anti-fraud interventions to reduce staff numbers and cut costs. Introducing Customer Compliance enabled the Department to redeploy 1,400 staff from its early intervention work into benefit processing centres, with the intention of improving fraud prevention earlier. The remaining 17 per cent (285) moved to Customer Compliance. The movement of these staff reduced the costs by £20 million. At the same time the estimated costs of the Fraud Investigation Service went down by £9 million, reducing the overall cost of these interventions by 18 per cent from 2005-06.

## Investigations can be delayed when input is required from other parts of the Department

**2.22** A fraud investigation takes on average 162 calendar days (5.4 months) from the time it is accepted as a fraud case to the time it is sent for a sanction (503 days or 16.8 months for Organised Fraud<sup>14</sup> cases). During the process, once an investigator from the Fraud Investigation Service has established the evidence to prove that fraud has occurred, cases are referred to decision makers within Jobcentre Plus to calculate the period and amount of overpayment. These decision makers are primarily concerned with ensuring that new claims are paid accurately and promptly. Once the overpayment has been calculated, a second decision maker within the Department's Debt Management Service is responsible for making a decision on the amount that is recoverable from the customer. There is a service level agreement to provide this calculation within ten days, but no data on performance currently exists. The Fraud Investigation Service is undertaking a pilot exercise in one area to review the time taken on cases by decision makers and to consider the grounds for having dedicated decision makers for fraud cases. However, no decision has yet been made on the number and location of these decision makers.

<sup>13</sup> Communications, Information, Contact Centres, Customer Services, Benefits and Fraud Directorates and Solicitors' Branch.

<sup>14</sup> For example, multiple identity fraud, forgery, serious collusion.

**2.23** Delays at any stage in the process can be damaging. Some cases have been dropped at prosecution stage due to excessive delays in the investigation process. There is no prescribed time limit for 'either way' cases (which may be tried in either Magistrates or Crown Court), but courts look unfavourably on those with long time delays. The Department's solicitors are reluctant to take forward to prosecution cases older than 12 months from interview under caution unless particularly serious or complex. Information on the number of cases returned due to delay is not kept by the Prosecutions Division. Analysis of 2,300 files submitted for prosecution from one regional office shows that 140 of these were returned by solicitors. The main reason (65 out of the 140) was delays at decision maker stage during the preparation of the case for prosecution.

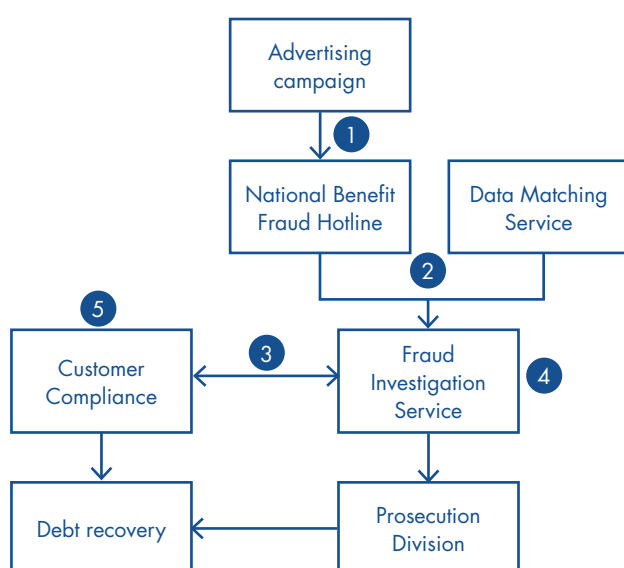
**2.24** Delays particularly affect summary offences as there is a twelve month time limit. These tend to be lower-value and less complex cases. These are generally dealt with in Magistrates Courts, which is a faster and cheaper way of prosecuting cases than in Crown Courts. However, because they are considered less complex, it is difficult for the Department to justify to the court when there have been unnecessary delays in preparing the case. The staff and advocacy costs for trials in Crown Courts are on average nearly six times as high as in Magistrates Courts. In order to establish how it can reduce the number of cases referred to the Crown Court, in October 2007, following a pilot in one office, the Department increased

the lower limit for case references from £20,000 to £35,000. Whilst not all cases can be heard in Magistrates Courts, and both Magistrates and the defendant can demand a Crown Court hearing, the Department should seek to ensure where possible that Crown Courts are not used unless absolutely necessary.

## Targets for the counter-fraud processes are not aligned with the overall aim of tackling fraud

**2.25** The driving force for the Department's work in tackling benefit fraud is Public Service Agreement (PSA) 10: to reduce losses from fraud and error for people of working-age. The Department reported that it met its PSA target 10a (Income Support and Jobseeker's Allowance) for 2005-06. The Department has also set itself a number of lower level targets for each intervention. These targets do not automatically flow from the headline PSA target but consideration is given to what outcomes are required to support the PSA target. Many of these lower level targets have been successfully met nationally, contributing in part to the overall reduction in fraud and error. However, they relate to cases processed rather than outcomes secured (e.g. reduced fraud) (Figure 19). Our workshops with operational staff revealed that they are very motivated by their own process-driven targets, but are less clear on how their work contributes to the overall goal to reduce fraud.

### 18 Interaction and communication issues between interventions



- 1 The Hotline keeps a record of how the public hear about it. The Hotline is not aware that this information has been taken up by other interventions. It would, however, be of use in Advertising in particular, where it would inform future campaign planning and strategy.
- 2 The Hotline and FIS are closely linked but it appears that limited learning/feedback occurs between them. Improvements in the feedback loop between them would increase the quality of referrals generated by the Hotline for FIS.
- 3 The relationship between FIS and Customer Compliance is still developing. Both time and increased dialogue between the two would support streamlined delivery of services, help achieve targets and share good practice.
- 4 FIS in the regions deliver the service in a variety of ways. These 'natural experiments' give varying results but are not currently shared across the service. There are opportunities to learn about what works and share good practice around the effectiveness of different approaches.
- 5 Different regional delivery models are used in Customer Compliance which varies the effectiveness of the service. Evaluation and feedback on these models is not currently shared but would be of use to the future planning and success of the service.

Source: National Audit Office

## 19 Performance against targets, 2006-07

	Comment	Target	Detailed performance	Achieved?
Public Service Agreement 10	Target for 2005-06 has been met. New target of 15 per cent reduction by 2010	Reduce fraud and error in IS/JSA by 50 per cent by 2005-06		Yes
Advertising		Develop campaign		Yes
Data Matching <sup>1</sup>		Issue 542,603 referrals (Housing Benefit Matching Service (HBMS) + General Matching Service (GMS))		Yes
		Data matching hit rate		
		■ HBMS (44 per cent)		Yes
		■ GMS (35 per cent)		Yes
Hotline	<b>Quality of Hotline targets impact on FIS</b> The Hotline target focuses on 70 per cent of all calls to be referred to FIS. However, there are no quality targets set relating to referrals; therefore problems with the quality of referrals impact on the achievement of FIS targets.	70 per cent of calls referred to FIS	79 per cent of calls referred to FIS	Yes
		Average call length <9 minutes (increased to 10 minutes from April 2007 to take account of FRAIMS)		Yes
Fraud Investigation Service	<b>FIS case focus impacts negatively on the efficiency of the Prosecution Division</b> Fraud Investigation Service has a target that 15 per cent of criminal sanctions are for high-risk 'living together' cases. However, Prosecution Division has identified some difficulties in progressing these as they are more difficult to prove in court. Therefore although the high level of loss from these cases warrants the focus of effort by FIS, they can consume disproportionate amounts of solicitors' time and resources.	Issue 25,000 sanctions of which: ■ 35 per cent are prosecutions ■ 15 per cent are for living together frauds	31,998 sanctions achieved ■ 10,116 (44 per cent) prosecutions ■ 3,783 (16 per cent) living together frauds sanctioned	Yes
Customer Compliance	2006-07 was the first full year of Customer Compliance operations, although Yorkshire and the Humber and the East Midlands regions formed the pilot in 2005-06. The intervention achieved 71 per cent of its case-related target, and 81 per cent of its overpayment reduction target.  <b>The number of FIS referrals impacts on achievement of Customer Compliance targets</b> Customer Compliance does not consider it receives enough referrals from FIS to achieve its targets.	Change 135,010 cases	Changed 95,673 cases	No
		Reduce benefit by £6.5m (monetary value of adjustment)	Benefit reduced by £5.25m (monetary value of adjustment)	No
Prosecutions	No targets			

Source: Data from individual interventions, Department for Work and Pensions and Jobcentre Plus

## NOTE

<sup>1</sup> Figures and targets to end of February 2007 only.



**2.26** Targets could be improved in three ways: by greater focus on outcomes; more sharing across the separate interventions; and by tackling inconsistencies between targets.

### Focussing more on outcomes

**2.27** Some targets are too focused on outputs. For example, the Fraud Investigation Service's sanctions target specifies that 35 per cent of cases should be accepted for prosecution, rather than focusing on the number of prosecutions secured. The Fraud Investigation Service cannot determine whether a prosecution will be secured. In addition, the Hotline has a target of referring 70 per cent of all calls to the Fraud Investigation Service. This target has not been reviewed for over a decade and is always exceeded.

### Individual targets should not be set in isolation

**2.28** Because each intervention sits within a different part of the Department, targets are not directly linked, although consideration is given to what outcomes are required to support the PSA target. This undermines the shared purpose in reducing fraud across all interventions, although there is a management report within Jobcentre Plus that provides information on a range of counter-fraud activities.

### Ensuring targets do not impact negatively on other interventions

**2.29** Targets from one intervention can impact adversely on delivery in another intervention. The changing profile of cases being sent for prosecution has impacted negatively on the Division's ability to manage its resources and workload effectively and efficiently. For example, as the largest value of fraud lost in means-tested benefit are those where customers are living together as either husband and wife or civil partners (£74 million), Jobcentre Plus are targeting this group. Investigators in the Fraud Investigation Service have a target of 15 per cent of criminal sanctions for these cases. However, solicitors in Prosecutions Division are currently not in a position to take a significant proportion of these cases because they do not reach the required evidential standard. The nature of cases in some targeted areas mean that evidence gathering can be time consuming and the cases are more likely to be taken to Crown Court, consuming considerably more of prosecutor's resources than cases taken to Magistrates Courts. Prosecution Division is not able with its current IT system to collect data about its success rates by type of case, so it is not possible to determine its performance with 'living together' cases. However, our workshops suggested that these cases may never reach court and have a low conviction rate when they do.

## The Prosecution Division is not able to forecast demand which makes it harder for it to use the most cost effective sanctions

**2.30** The current sanctions have been in use since 1998. Following our recommendation in 2003, a review of the sanctions regime was undertaken by the Department. This concluded that the sanctions regime was fit for purpose but more could be done to increase claimants' awareness of the sanctions imposed on benefit fraudsters (**Box 2**).

**2.31** Depending on the strength of the evidence and circumstances, a case may be handled in one of four ways: terminate and take no further action; issue an administrative penalty; hand out a formal caution; or refer the case for prosecution (**Figure 20**). Formal cautions and administrative penalties are used for less serious cases of fraud; those where the overpayment is below £2,000. Formal cautions are designed to correct claimant behaviour by getting them to admit to the offence. Administrative penalties, which became available through the Social Security Administration (Fraud) Act 1997, give the claimant the opportunity to avoid prosecution by paying a penalty of 30 per cent of the overpayment, as well as having to repay the overpayment in full. Regardless of the likely sanction imposed, all investigations must be carried out and evidence gathered in line with standards set for prosecution.

### BOX 2

#### Review of the sanctions regime: summary of findings and conclusions

**Cautions:** perceived by the public to be far too lenient to be an effective deterrent, except for vulnerable or accidental fraudsters.

**Administrative Penalties:** perceived as having very limited deterrent effect especially where the amounts deducted from benefits are minimal and a long time is taken between issuing the penalty and making the deduction. By taking an administrative penalty, however, customers do not end up with a criminal record, which might prevent them from obtaining work in the future and coming off benefit.

**Prosecution:** considered the most appropriate and effective deterrent, especially for those with families given the impact that a successful prosecution could have on them.

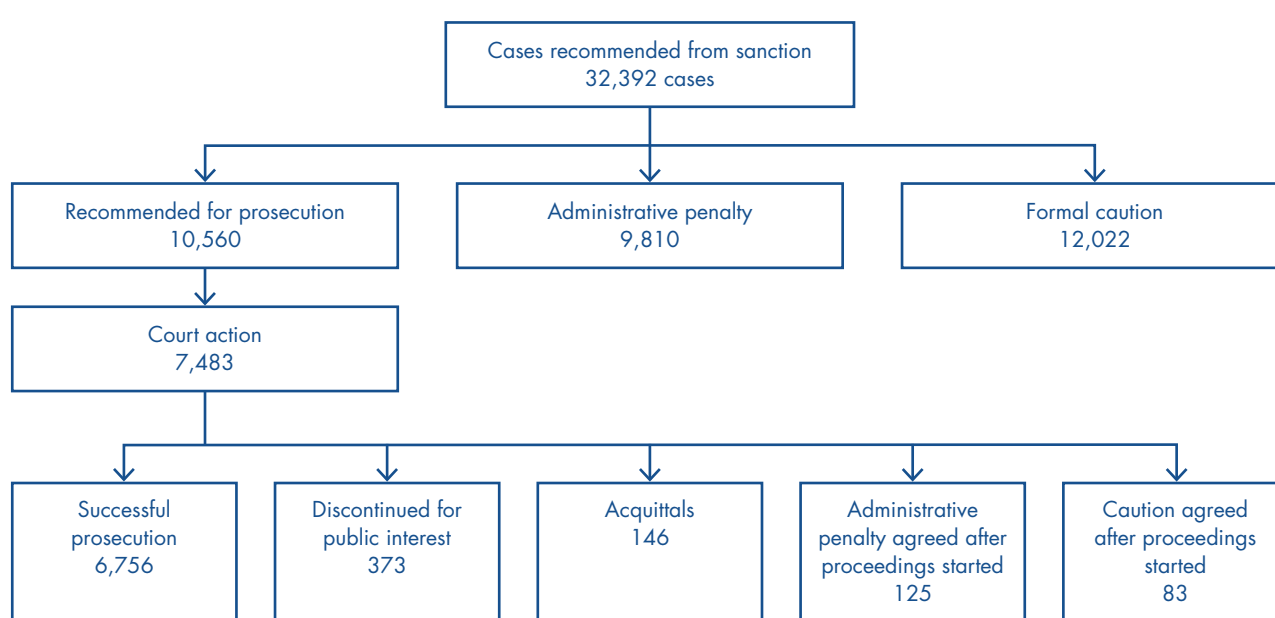
**Overall:** the Department concluded that the sanctions regime is effective but could be improved significantly. In particular, greater awareness is needed amongst customers of the possible negative outcome of their fraudulent activity.

*Source: Department for Work and Pensions*

**2.32** Overall, the number of prosecution files received increased from 8,002 in 2004-05 to 10,560 in 2006-07 and there has been an increase in the complexity of cases due to the shift in the case structure. The number of Summary Cases – which can only be heard in Magistrates Courts and can carry a maximum custodial sentence of six months – has decreased significantly, while the number of Either Way Offences – which may be tried in either Magistrates or Crown Courts – nearly tripled between 2003-04 and 2006-07. Either Way Offences, particularly those prosecuted in Crown Courts, are generally more serious and consume more resources. Together with the introduction of the Criminal Procedure Rules in 2005, which impose strict

rules for proceedings and time limits, and additional work under the confiscation of assets regime, this has resulted in an increased workload for the Prosecution Division. There are significant fluctuations in the referral levels over the year, ranging from 600 accepted referrals in one month to over 1,300, with an average of 850 per month. The Fraud Investigation Service has also seen an increased workload resulting from the Criminal Prosecution Rules. At the same time, the Prosecution Division has experienced, as part of wider Departmental efficiency targets, a 17 per cent reduction in staff since 2003, to 134 full time equivalents. This does not allow for the active management and planning of an annual prosecution strategy.

## 20 Breakdown of cases recommended for sanction



Source: Fraud Investigation Service (Jobcentre Plus) and Prosecution Division (Department for Work and Pensions), 2006-07

### NOTE

All data are for 2006-07. For several of the prosecution cases submitted in 2006-07, a decision is still pending. The figure of court results during 2006-07 also contains cases submitted in previous years. A certain number of cases recommended for prosecution are also returned to FIS due to delay or inadequate evidence (566 cases between October 2005 and September 2006). A number of sanctions applied will relate to investigations finding fraud before the start of the year. Similarly, some will not have had a benefit adjustment or sanction applied by the year-end. For the purpose of estimating the proportion of cases finding fraud that led to a sanction within 2006-07 we have assumed these two amounts to be equal.



# PART THREE

## Do the Department's counter-fraud interventions represent value for money?

**3.1** This part examines whether the Department is achieving value for money through its counter-fraud interventions. In 2003, we recommended that the Department compare the costs and benefits of its different approaches in order to assess the relative effectiveness of interventions. Thus far, the Department has been unable to carry out this analysis.

**3.2** This part of our report provides an initial benchmark of costs and benefits on which the Department can build in the future. We have attempted to assess the cost effectiveness of the six specific interventions examined, but we have not attempted to cost other elements of the Department's counter-fraud work, such as prevention and measurement. We have also not examined the cost effectiveness of other Departmental developments, such as regular interviews with jobseekers, medical examinations with people claiming disability and incapacity benefits, and the checks introduced by the Department to prevent fraud in the first place, all of which the Department expects to help counter fraud. In assessing cost effectiveness we have taken into account:

- the comparability of the six interventions;
- the availability, accuracy and consistency of management information; and
- the lack of an adequate measure for deterrence.

### Recovering debt is important in tackling fraud

**3.3** A major deterrent for potential fraudsters is the knowledge that the benefit will have to be paid back. Where an individual is still entitled to benefit, overpayment deductions reduce weekly entitlements. Overpayment recovery is handled by the Department's Debt Management Service, which operates 10 debt centres, and is not a primary aim of counter-fraud work. Since 2002, decision makers within Debt Management have had a target to

action fraudulent overpayment recovery within 10 days, but there is currently no performance data available on this. The other counter-fraud interventions therefore measure their impact according to overpayments identified, rather than monies recovered.

**3.4** In 2006-07, the Department recovered £22 million of £339 million known debt it has as a result of fraud. It is the Department's policy to recover all overpayments where reasonable and cost effective to do so. The actual amount recovered as a result of counter-fraud work may be a small proportion of the overpayment in that year (**Figure 21**). There are a number of reasons why recovery of overpayments may be slow. Recovery by deduction of benefits is limited by Social Security Regulations. Customers who already have deductions from benefit as a result of Social Fund loans or other direct payments can have the rate of recovery reduced from £12 per week to as little as £3 per week. This considerably extends the period over which the Department recovers overpayment and may contribute to the overall low recovery rate. Monies recovered by the Department are not retained by the Department itself, but go to HM Treasury. The Department also recovers overpayments due to error. The number of

#### 21 Overpayments identified and recovered by intervention

	2006-07	2005-06
New fraud debt	£45 million	£64 million
Fraud debt stock (carried over)	£339 million	£308 million
Fraud debt recovered	£22 million	£20 million

Source: Debt Management Service, Department for Work and Pensions

#### NOTE

Values are rounded to nearest £1 million.

overpayments due to fraud or error combined being referred to debt centres increased from 580,000 between April and November 2006 to 825,000 in the same period for 2007. Overall, recoveries for this period increased by 30 per cent from £144 million to £184 million.

**3.5** Recovery by deduction from benefits can be made at a higher rate than other overpayments when someone admits fraud or pleads (or is found guilty) in court, although priority for such deductions is set out in Regulations. Recovering overpayments becomes more difficult once customers find full time work as they become harder to track. In April 2004, there were over 10,000 administrative penalties held by Debt Management where people had come off benefits. Of those just under 1,000 were being repaid, with the remaining 90 per cent unpaid.

**3.6** An Enforcement project set up in October 2003 looked at this problem and debt centres may now use private sector debt collection agencies. These collected over £5 million of debt in their first year of operation in 2004-05, and £7.56 million in 2006-07. As at August 2007, there were 17,000 customers with an administrative penalty held by Debt Management who had come off benefits. Of these, around half had paid back some of their debt. Only a third of the 17,000 had made some repayment in the last financial year. To increase the number of penalties recovered earlier, the Department has changed its approach so that administrative penalties are collected before the related overpayment. The Department also uses powers under the Proceeds of Crime Act to confiscate assets. In 2006-07, it made 114 confiscation orders and seized £6.6 million worth of assets.

## The Department cannot easily assess cost effectiveness as not all fraud interventions have sufficient financial management information

**3.7** In 2006-07, we estimate that the Department spent around £154 million on the six interventions we examined in detail, using over 4,000 staff (**Figure 22, Figure 23 overleaf**). Whilst some of this work is likely to impact on error as well as fraud, our estimate of £154 million seeks to identify specifically those costs incurred implementing these elements of the Department's fraud strategy.

**3.8** Some of the figures are estimates as information on the costs of countering fraud at regional level is not complete. Regional fraud investigation and compliance managers have limited information on the costs of their work and as a result the costs and benefits of some regions departing from the Department's recommended guidelines for each intervention cannot be assessed. The Department does not collect cost information in sufficient detail to determine actual spending on counter-fraud activity. This prevents it from comparing the relative costs and benefits of different approaches and so determining the potential for improvement. This, in turn, limits the Department's understanding of the likely effects that changes in prevention and detection activity might have on the level of fraud.

**22** Table of costs 2006-07

	Unit cost (£, per referral/case)	Staff costs (£ million)	Total costs (£ million)
Advertising	1	0.17	6.7
National Benefit Fraud Hotline	5	0.88	1.35
Data Matching Service	11.9	1.6	7.6
Customer Compliance	77	22.4 (est.)	22.4
Fraud Investigation Service	496	89.0 (est.)	106.9
Prosecutions	not available	4.38	9.48
<b>Total</b>	<b>-</b>	<b>118</b>	<b>154</b>

Source: National Audit Office using data from the Department for Work and Pensions

#### NOTE

1 Referrals were not a primary object of the campaign and have not been calculated.

**3.9** Determining costs and benefits is made difficult because of the complex interactions between the interventions. These limitations are, however, exacerbated by more avoidable weaknesses. For example:

- those responsible for the advertising campaign have a good understanding of costs and consequences in terms of visibility and awareness, but the relationship between the campaign and reduced overpayments is difficult to determine;
- there is a lack of consistent and accurate reporting on overpayments identified by Customer Compliance;
- the costs of the Hotline are known, but not the benefits of deterrence which arise from it;
- aggregate costs for fraud investigation are known, but variations between cases, and the reasons for these and the benefits resulting, are unknown; and
- solicitors at the Prosecutions Division do not record time spent on individual cases, making judgements about their efficiency difficult. They overrun their law-charges budget substantially every year due to the volume of Crown Court cases but do not consider this raises value for money issues.

**3.10** Some interventions, such as the Hotline, are clear what their budgets are. On the other hand, it has been difficult to gather accurate budgetary or staff data for Customer Compliance, even though it has only recently been established. The intervention is delivered at a regional level and there is no single IT system across the regions to record cost or performance data. Regions have adopted different approaches to delivering compliance activity, and those not yet using the standard operating model have been more effective than decentralised regions. Nevertheless, it is expected that over time all teams will adopt the standard operating model.

**3.11** In addition, assessing the achievements from the Department's work is not straight forward. Some interventions use Monetary Value of Adjustment as a performance target whilst others report on Overpayments Identified (**Figure 24**). The use of these measures is not consistent across all interventions, making it difficult to determine the real impact and effectiveness of the Department's activity.

**3.12** The Prosecution Division has a high success rate, with over 90 per cent of cases resulting in court sentences. But neither the Division nor the Department assess the cost effectiveness of prosecuting different types of cases and there is no data collected about the costs of prosecuting individual cases or success rates by case types. The work is entirely demand-led and the Division has no control over the number of cases submitted for

## 23 Staffing numbers 2006-07

Intervention	Staffing	Comment
National Benefit Fraud Hotline	40	The Hotline uses temporary staff to make up around 20 per cent of its call operators
Data Matching Service	63	The Data Matching Service estimates that, based on headcount reduction targets, it will have around 51 full time equivalent by April 2008
Advertising	3.85	Campaigns are run using flexible "virtual" teams from across the organisation so that staffing numbers change throughout a campaign. This figure is an estimate based on previous campaigns
Fraud Investigation Service	2,985	This includes staff from Organised Fraud, the Intelligence Units and the Central Preparation Teams. There were approximately 60 surplus staff in the Fraud Investigation Service at March 2007, down by 20 from February 2007
Customer Compliance	875	This is an estimate. Staff may be engaged in fraud and/or frontline activities but the breakdown between the two cannot be differentiated
Prosecution Division	134	Prosecution Division does not record the chargeable hours spent on cases. Because it also works for other Government Departments it is not clear how many hours per day its 134 staff work on counter-fraud activities for the Department
<b>Total</b>	<b>4,101</b>	<b>Estimate</b>

Source: National Audit Office using data from the Department for Work and Pensions

prosecution. Departmental solicitors do not always control which court is used, as both Magistrates and the defendant can request a hearing in the Crown Court. The number of high-value and complex cases (dealt with in Crown Court) has increased significantly during the last four years, increasing legal costs. A trial in a Crown Court is on average almost six times more expensive than a trial in a Magistrates Court.<sup>15</sup> However, the Prosecution Division has a fixed budget for law charges, and as a result had an overspend of £2.4 million in 2006-07.

## Our cost effectiveness analysis offers a baseline on which the Department can build

**3.13** In the absence of the Department's own assessment of the cost effectiveness of its counter-fraud work, we have used all available management information to establish a baseline for further work. This data does not enable us to compare the effectiveness of all the interventions. However, we are able to make comparisons between interventions that to some degree serve a similar purpose, for example, the National Benefit Fraud Hotline and the Data Matching Service, both of which generate referrals. Similarly, we can compare Customer Compliance and the Fraud Investigation Service as both bring a fraud referral to a conclusion: Customer Compliance bringing low value frauds to an immediate end, and the Fraud Investigation Service sanctioning offenders and recovering overpayments. In reporting total recoverable overpayments identified, we have used the combined outcomes from the fraud investigation and compliance activity which give an actual recoverable overpayment figure.

### 24 The Department uses two main outcome measures

#### Monetary Value of Adjustment (MVA)

The Department defines MVA as the difference between the weekly benefit in payment before the investigation and the amount in payment following the correction. Some interventions draw a distinction between "negative MVA" where benefit has been reduced and "positive MVA" where benefit has been increased. Correction of fraud cases inevitably results in negative MVA; errors can have either outcome.

#### Overpayments Identified

Overpayment Identified is an accurate measure of what should not have been paid to the benefit claimant. However, when used as the sole yardstick of effectiveness of a counter-fraud intervention, it can generate perverse behaviour because correcting a case immediately could be seen to "score less" than letting it run for a few weeks.

**3.14** All the interventions we examined have some direct and indirect impact on deterrence and prevention of fraud. However, the deterrent effect is not captured during this analysis as an adequate measure does not currently exist. Overpayment figures are not a reflection of how much money is collected by the Department during or following an investigation or compliance activity. Recovery rates of overpayments identified by the Fraud Investigation Service were around 25 per cent.

## Referrals generated through the Data Matching Service appear to be more cost effective than those through the Hotline

**3.15** Based on the overpayments identified during the case, referrals generated through the Data Matching Service appear to be more cost effective than those generated by the Hotline. This comparison is not intended as a trade-off between the two interventions, as they generate different types of fraud referrals. Rather, it provides an opportunity to benchmark costs. On average, it costs the Department £5 per call received by the Hotline, based on the 280,000 calls received during 2006-07.<sup>16</sup> In addition to telephone calls, the Hotline also processes cases received through the internet: 58,000 during 2006-07. On average, internet referrals result in lower overpayments per referral, at £58 per case, than telephone calls, which identify on average £83 overpayment per referral. Overall, cases received through the Hotline identify overpayments of £77 (**Figure 25**). On average, every £1 spent on the National Benefit Fraud Hotline generates around £16 in identified overpayments.

### 25 Comparison of cost effectiveness between the Hotline and the Data Matching Service

	Hotline	General Matching Service	Housing Benefit Matching Service
Average cost per referral	£5	£11.60	£12.10
Average overpayment identified per referral	£77	£282	£332
Overpayment per £1 spent	£16	£24	£27.5

Source: National Audit Office using data from the Department for Work and Pensions

<sup>15</sup> Calculations based on data from three-month time recording exercise by the Department's Solicitors Branch.

<sup>16</sup> Hotline costs do not include full estate or IT costs.

**3.16** The Data Matching Service provides referrals for more than just the Department's own counter-fraud interventions, including local authorities through its Housing Benefit Matching Service. Data are held for each strand of the Service's work. Data Matching also identifies underpayments as well as overpayments, thus improving the accuracy of benefit payments. The average cost of each fraud referral generated is around £11.60, compared to £12.10 per Housing Benefit Referral (**Figure 25**). The value of overpayments identified per £1 spent on data matching is considerably higher for data matching referrals than those through the Hotline.

### Since Customer Compliance was only introduced in April 2006, cost effectiveness indicators have yet to show an increase in the value of recoverable overpayments identified by counter-fraud activity

**3.17** Since the introduction of Customer Compliance, a relatively new intervention, the total value of overpayments identified by fraud investigators has dropped by £51 million during 2006-07. But this has not been replaced by the £14 million overpayments identified by Customer Compliance during its first year of operation. This fall may be due in part to the fact that Customer Compliance is intended to deal with lower value frauds, and that it has only been in place for one full year. From January to March 2007 Customer Compliance performance improved and early indications from 2007-08 suggest that improvements are continuing. However, overall the total value of recoverable overpayments identified has reduced by £37 million (26 per cent) in the last year. A drop in recoverable overpayments, however, would be expected as the intention of Customer Compliance is to intervene in a case earlier and correct benefit payments, thereby preventing further overpayments being made by the Department.

**3.18** During 2006-07, the overall costs of the Fraud Investigation Service and Customer Compliance went down by £9 million, a reduction of 18 per cent compared with 2005-06. The move to Customer Compliance was to enable the Department to correct cases more quickly and cheaply than via criminal investigations, involving one or occasionally more interviews, completed where possible in a single visit. Since the introduction of Customer Compliance the Department is dealing with 10,000 more cases of suspected fraud, an increase of 2 per cent on the previous year.

**3.19** In 2006-07, the Department spent £22 million on the new Customer Compliance activity identifying £14 million of recoverable overpayments. Each case processed by Customer Compliance therefore cost the Department £77, and identified an average overpayment of £48 (**Figure 28**). However, this does not take into account that earlier intervention through Customer Compliance activity will prevent the error and overpayment continuing. Each case taken forward by the Fraud Investigation Service cost around £496 and identified recoverable overpayments of £427 in 2006-07 compared with £321 in 2005-06 (**Figure 26**), suggesting that the Service is now focusing on higher value and more complex cases, leaving lower level frauds for Customer Compliance activity. Cases progressed through fraud investigation cost six times more per case than compliance activity. This is not surprising given that Customer Compliance was introduced in part to offer a speedier method of dealing with low level frauds. For each £1 spent, Customer Compliance identifies £0.62 compared with the Fraud Investigation Service's identification of £0.86 (**Figure 28**).

**3.20** The result of the first complete year of Customer Compliance activity was around 96,000 changes (**Figure 27**). Of these, 68 per cent (66,000) resulted in a reduction in the claimants' benefit entitlement, which means there may have been an overpayment in the past. However, the intention of Customer Compliance is to prevent further overpayments being made immediately. Recoverable overpayments were identified in 17,000 cases during 2006-07, where the claimant had admitted they knew about the overpayment. In at least 50,000 cases, though, the Department has not sought to recover past overpayments. From January to March 2007 Customer Compliance performance improved and early indications from 2007-08 suggest that improvements are continuing.



**26** Cost effectiveness of Fraud Investigation Service over time

	Referrals	Budget (£ million)	Staff	Overpayments identified (£ million)	Average cost per action (£)	Average overpayment (£)	Cost effectiveness per £1
2003-04	394,000	136	4,443	134	346	337	0.97
2004-05	372,035	137	4,345	137	368	362	0.98
2005-06	440,732	116	3,576	144	262	321	1.23
2006-07	215,635	107	2,985	92	496	427	0.86

Source: National Audit Office using data from the Department for Work and Pensions

**27** Customer compliance activity 2006-07

Customer Compliance cases	293,000
Changes made	95,673
Reduction in benefit	66,080
Overpayments identified	16,908

**28** Comparison of cost effectiveness between compliance and fraud investigation

	Customer Compliance £	Fraud Investigation Service £
Average cost per referral	77	496
Average overpayment identified per referral	48	427
Overpayment per £1 spent	0.62	0.86

Source: National Audit Office using data from the Department for Work and Pensions

### The advertising campaign raises awareness but it is hard to quantify its effect on reducing fraud

**3.21** It is not easy to establish the effectiveness of the advertising campaign using the Department's two monetary measures (MVA and Overpayments Identified). The impact of advertising is largely in terms of raising awareness amongst key target audiences and their perception that abusing the benefit system is a crime.<sup>17</sup> However, despite the Hotline number not being directly advertised on key media, the waves of advertising coincide with increases in calls to the Department's Hotline, which generates more referrals for consideration for investigation.

**3.22** Over the first two months of the Department's latest advertising campaign there were almost 11,000 calls above the average for that period. It is not possible to determine how many of these resulted in positive action taken by the Department. However, using the average value of overpayments identified as a result of cases received through the Hotline, we are able to estimate that these additional referrals identified almost £900,000 of overpaid benefits. Identifying overpayments is not the primary purpose of the advertising campaign, and is an additional indirect benefit.

<sup>17</sup> The Department's tracking research indicates that this has increased between 2005 and 2006 from 60 per cent to 64 per cent during its campaigns.

# APPENDIX ONE

**1** Following our 2003 report 'Tackling Benefit Fraud' the Department undertook to improve procedures and practices, and a number of changes have been made to existing programmes. This report reviewed the progress achieved to date. More specifically, it considered:

- What is benefit fraud and what progress has been made in tackling it?
- How effective are the Department's interventions to tackle benefit fraud?
- Do the Department's counter-fraud interventions represent value for money?

**2** We examined six interventions (Advertising Campaign, National Benefit Fraud Hotline, Data Matching Service, Fraud Investigation Service, Customer Compliance and Prosecution Division) selected to represent all stages of the Department's integrated strategy to tackle fraud (deterrence, prevention, detection, investigation and correction). They are some of the Department's headline interventions and cover a large percentage of its work.

**3** This report is based on:

- Interviews with key individuals in the Department
- Logic modelling exercises of all six interventions
- Cost-effectiveness analyses of all six interventions
- Multi-Criteria Decision Analysis
- Consultation with external stakeholders
- Data interrogation research report

## Scope and methodology

The fieldwork and analyses for the logic modelling exercises and cost-effectiveness analyses were carried out by RAND Europe, under the direction of the National Audit Office. The Multi-Criteria Decision Analysis was carried out with assistance from Professor Valerie Belton from the University of Strathclyde Business School.

**4** We were also able to draw on our work auditing the Department's financial accounts and our report published in 2006 on '*International benchmark of fraud and error in social security systems*' (HC 1387, 2005-06).

## Interviews with the Department

**5** We held unstructured interviews with senior personnel responsible for, or involved, in the Department's strategy to tackle benefit fraud, including: the Head of Fraud and Error Strategy Division (David Barr); Head of Fraud and Error, Housing Benefit Strategy Division (John Viggers); and Head of Fraud Investigation Service (Dave White). The discussions focused on their views of the Department's anti-fraud strategy, and changes and improvements made since the previous NAO report.

## Logic Modelling

**6** Logic models (also known as theory of change models) are a graphic representation of the inputs, activities, outputs and outcomes of a programme, with the aim of relating invested resources to actual outcomes and of analysing the underlying processes (see [Figure 29](#)).

Such logic models were constructed for each counter-fraud intervention, providing 'snapshots' of the intervention. These also acted as a structuring tool for discussions during facilitated workshops with staff responsible for delivering the interventions. There were two stages to developing the logic models:

- i **File Reviews** – preliminary models were constructed on the basis of desk research.
- ii **Interviews and Facilitated Workshops** – models were completed and validated by Departmental staff during workshops (interviews and focus groups) run jointly by RAND Europe and the NAO. Our interviews and workshops included staff from each of the six interventions we examined, covering a wide geographical spread. We estimate that around 90 staff were involved in the modelling, equating to several hundred years’ experience in counter-fraud work.

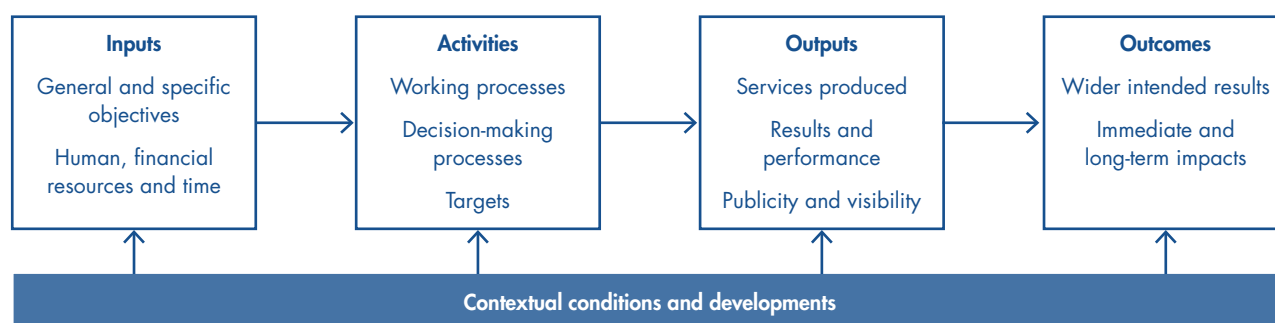
7 We interviewed staff in other parts of the Department – Organised Fraud, the Financial Investigation Unit, FRAIMS project group – to discuss their work in relation to counter-fraud. We also met with the fraud unit at the London Borough of Waltham Forest to discuss their approach to tackling Housing Benefit fraud; and Professor Hartley Dean, London School of Economics, to discuss benefit customers’ motivations to defraud.

## Cost-Effectiveness Analysis

8 Management information across all fraud interventions is generally poor and significant gaps exist (Figure 30). We analysed what cost and performance data were available from the interventions in three stages. In detail, we:

- determined the **unit of activity** in each intervention (e.g. referrals) in order to ensure the comparability of the cost-effectiveness analysis;
- analysed the **cost of the unit of activity** of each intervention by using available budget information. This budget information only contained direct costs (staff and some overheads). Most indirect costs such as rent and IT are not included in most budgets; and
- derived **effectiveness measures** for each intervention. The two main effectiveness measures (Monetary Value of Adjustment and Overpayments Identified, Figure 24) used by the Department were adopted as proxies for effectiveness and were calculated per unit of activity. Due to the unavailability of necessary data it has not been possible to break these measures down further, which limits the comparability of the effectiveness measures across all interventions.

### 29 An example of a basic logic model



Source: National Audit Office

### 30 Data availability by intervention

Data	Staff numbers	Output	Total costs	Unit costs	Cost-effectiveness
Advertising campaign	✓	✓	1	×	×
National Benefit Fraud Hotline	✓	✓	✓	×	×
Data Matching Service	✓	✓	1	×	×
Fraud Investigation Service	✓	✓	✓	×	×
Customer Compliance	✓	✓	1	×	×
Prosecution Division	✓	1	1	×	×

Source: National Audit Office

NOTE

1 Only partial data availability or qualified data.



**9** The deterrent and prevention effects were not captured in this analysis. Comparative measurements of effectiveness could be established for the Hotline and Data Matching Service, which both generate referrals, and for the Fraud Investigation Service and Customer Compliance, which both process fraud referrals. The analysis did not distinguish between fraud and error.

## Multi-Criteria Decision Analysis

**10** In order to develop a tool for future self-assessment by the Department we held a Multi-Criteria Decision Analysis (MCDA) session with representatives from the Department. MCDA is a technique that takes account of multiple and conflicting criteria to help make decisions on priorities. We tested the usefulness of this approach in assessing the relative contributions of the individual interventions in achieving the goals of the anti-fraud strategy. This could then provide a baseline for decisions about the development and improvement of the strategy and practices of the Department.

**11** The complexity of the relationships between the six interventions did not lend itself to the traditional use of MCDA as they are not true alternatives. Due to the high level of interdependencies between the interventions, it is difficult to evaluate the performance of each in isolation. Despite these challenges, the results of the workshop indicated that the MCDA analysis could potentially provide a valuable framework in the future to highlight the individual contributions and the complementarities of the initiatives with regard to the overall strategy to counter fraud.

## Consultation with Experts

**12** We consulted with staff from the following organisations, which all have far-reaching experience and knowledge in the area of tackling fraud:

- ICAEW Fraud Advisory Panel
- National Anti-Fraud Network
- HM Treasury
- Audit Commission/ Benefit Fraud Inspectorate

We gathered experts' views on the approach and scope of our study and followed up key lines of enquiry.

**13** In July 2006 the first comprehensive review of fraud and counter fraud work in England and Wales was published: (*Fraud Review*, Attorney General's Office). Although this specifically excluded benefit fraud, we have taken full account of the findings of the review as its recommendations are far-reaching and will impact on the Department's work, in particular working with other Government Departments in the future. The National Audit Office contributed to the review and is leading one of the working parties taking forward the recommendations. The Department is also involved in the work taking forward the recommendations of the Fraud Review.

## Data Interrogation Research Report

**14** We commissioned Detica to document the data interrogation techniques used by both the public and private sectors to tackle fraud. To assess the effectiveness of an organisation's ability to tackle fraud, Detica used a model which enables an organisation to 'score' its approach to prevent, detect and investigate fraud against best practice in this area. The report informed our understanding of the Department's data matching techniques and provided us with information about how the Department is positioned in comparison to other private and public sector bodies.

# APPENDIX TWO

## Previous Committee of Public Accounts recommendations

### PAC Conclusions

(2003) Reliable information on costs and results is required if resources are to be allocated efficiently.

(2003) The Department should set specific milestones for improvements to IT systems in terms of what benefits they expect to achieve.

(2003) The Department should increase the number of prosecutions made, given the success rate they have here. As well as assess the success of other deterrents and sanctions to prevent fraud, they should also assess the effect of their media campaigns.

(2003) It is unacceptable that the Department's accounts have been qualified for the last 13 years and there are such large variations in how much fraud is identified and tackled from region to region.

### Department's Response

The Department intends to ensure that data on fraud inspections becomes part of the mainstream management information provided to Jobcentre Plus managers. Secondly, the Department intends to put in place systematic benchmarking of counter-fraud performance, including the gathering of cost information on prevention and investigation work.

The projects resulting from the updated IT system strategy will be required to set out fully what benefits they will deliver and associated timescales. These estimates will be kept under regular review throughout projects' lives.

The Department has commissioned a full review of the deterrent effect of its current sanctions policy. The results of this review, which will be available in Spring 2004, will inform future policy in this area.

The Department is committed to full, independent evaluation of each phase of its Targeting Fraud advertising campaign.

Each region within Jobcentre Plus has been set a specific target to reduce loss. During 2002-03 Jobcentre Plus also established an updated performance management structure, which included the creation of Target Focus Groups, led by senior Field Managers at Deputy Director level, specifically to help improve overall performance against national targets and tackle regional variation through sharing good practice.

### Comment

Management information remains generally inconsistent and poor across interventions. Improvements have been made in the reporting of investigation outcomes.

The roll-out of the Department's integrated case management system was started in 2007.

The Department's review concluded that the current regime worked but recommended:

- Increase awareness of penalties amongst public
- Review the values at which some penalties are applied

The overall success rate in 2006-07 – share of cases resulting in conviction – was 90.3 per cent.

The Department uses tracking research to determine the success of its advertising campaign. It is due to undertake a full evaluation in 2008.

The Department has since restructured its Fraud Investigation Service. Regional teams have individual targets. Customer Compliance has not met its targets and there remain some regional variances.

**PAC Conclusions** *continued*

(2005) The Department should benchmark its performance against comparable organisations in the UK and abroad.

(2005) The Department should extend its efforts to simplify the benefit system to other benefits.

(2005) The Department should guard against making administrative savings at the expense of the reduction of losses from fraud and error. In particular it should assess the savings which can be derived from additional staffing on fraud prevention and detection activities such as data matching and intelligence analysis.

**Department's Response** *continued*

The Department is still the only organisation that uses a rolling measurement system to estimate the scale of loss. The NAO in collaboration with RAND Europe have now completed a study on international benchmarking for fraud and error.

The Department is always working to simplify the system. In particular the Department has set up a Benefit Simplification Unit which will consult the NAO and the Social Security Advisory Committee on setting out principles of simplification to guide benefit design and delivery and to report regularly on progress in this area.

The Department will continue to address the way in which it tackles fraud and error through:

- process compliance to get claims right;
- Customer Compliance interviews to maximise customer responses to changes that affect their benefit; and
- criminal investigation to sanction in the case of more serious fraud.

These measures, especially the development of Customer Compliance interviews, will enable the Department to tackle more allegations of fraud through face to face contact than it can now.

**Comment** *continued*

The National Audit Office completed a benchmarking exercise of social security systems in other countries, published in 2006, *International Benchmark of Fraud and Error in Social Security Systems*, HC1387, 2005-06.

As a result of the NAO report *Complexity in the Benefits system* (HC 592, 2005-06) the Department has set up a Benefit Simplification Unit. We will report on its progress in due course.

There remains considerable scope to improve understanding of the costs and benefits of individual prevention and detection activities. Customer Compliance has yet to demonstrate that it will deliver the expected improvements.

# APPENDIX THREE

## Regional Performance

In our last report, we found significant variations between regions in the value of detected frauds and in their targeting of investigations.

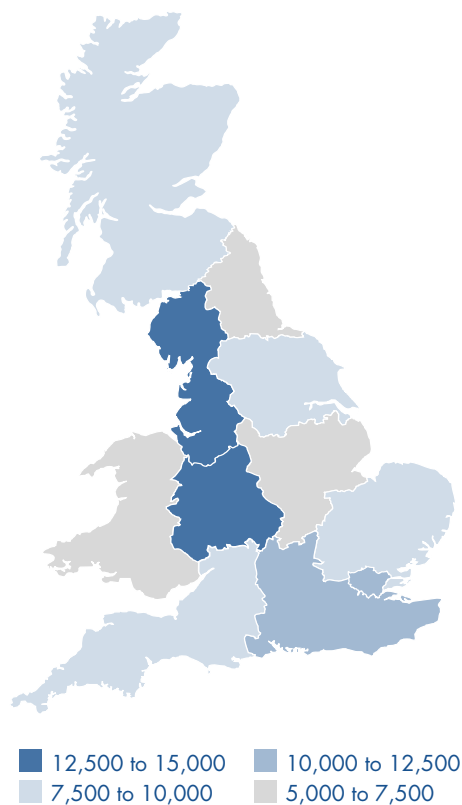
Since we last reported, the Counter-Fraud Investigation Service has been reorganised into the Fraud Investigation Service and Customer Compliance. The former is now organised on a national model. Regional variations in procedure are much reduced and, although each region has its own target, differences in performance are less marked.

### Benefit expenditure

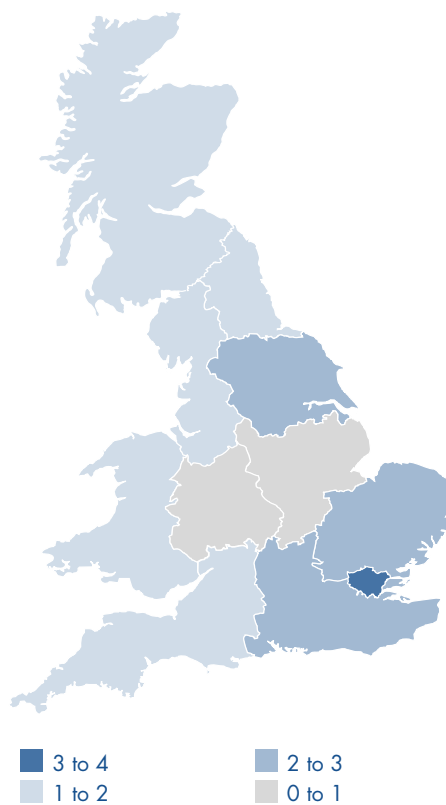
Benefit expenditure varies substantially between regions (**Figure 31**), according to population density and economic factors. There are around 17.5 million claimants in receipt of around £120 billion of benefits.

#### 31 Regional performance

Benefit expenditure, 2005-06, £ million



Benefit overpaid, 2005-06, Percentage



Source: Department for Work and Pensions, Information Directorate, Work and Pensions Longitudinal Study, November 2006

## Rates of fraud

Rates of fraud as a percentage of benefits paid in each region are estimated to vary between 0.5 to just over 3 per cent. This is not necessarily a reflection of the number of fraudulent claimants in each region but is an estimate of the value of frauds committed. This represents a significant reduction in the estimated value of frauds overall since 2000-01, where the estimated percentage of loss ranged from 5.3 to 9.9 per cent.<sup>18</sup>

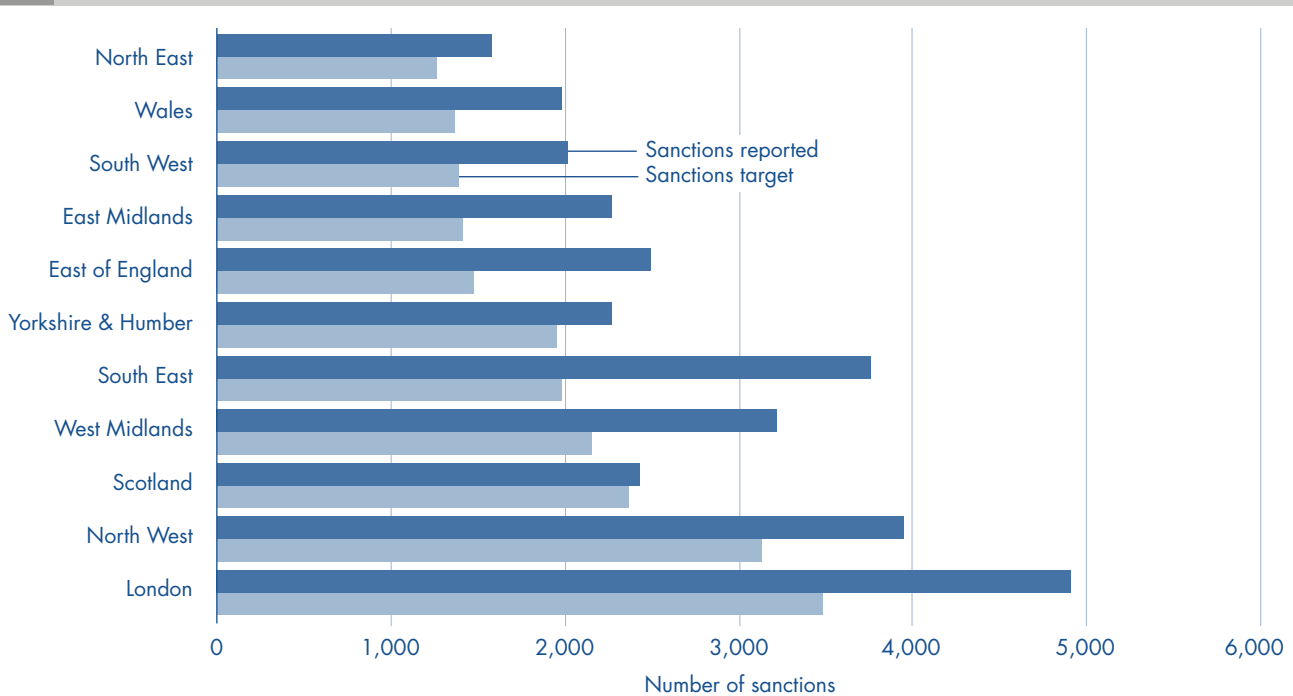
## Regional investigation performance

The reported variation in performance between regions is currently less marked than was reported in respect of 2000-01. Data for 2006-07 takes account of the changes in structure within the Department's Counter-Fraud Investigation Service. Each region has its own performance target that takes into account the expenditure on benefits and the level of fraud estimated to be present. In 2006-07, all regions in the Fraud Investigation Service reported that they had exceeded their targets for sanctions (cautions, administrative penalties and prosecutions).

## Regional compliance performance

Regional performance in Customer Compliance, a new intervention introduced in 2006 to tackle low level frauds not requiring full criminal investigation, has been more varied, and this intervention has just completed its first full year of operation. Only one region (Yorkshire and the Humber) reported that it had achieved both of its performance targets. This was one of the two regions in which Customer Compliance was piloted in 2005-06. Two other regions (South East and East of England) reported that they had achieved their targets for the monetary value of changes achieved. Customer Compliance has now been in place for one full year of operation and its target for 2007-08 has been revised down from 135,000 cases to 107,000 cases where a change is made to the benefit. The target value of adjustments has however risen by £0.2 million to £6.7 million.

### 32 Regional investigation performance



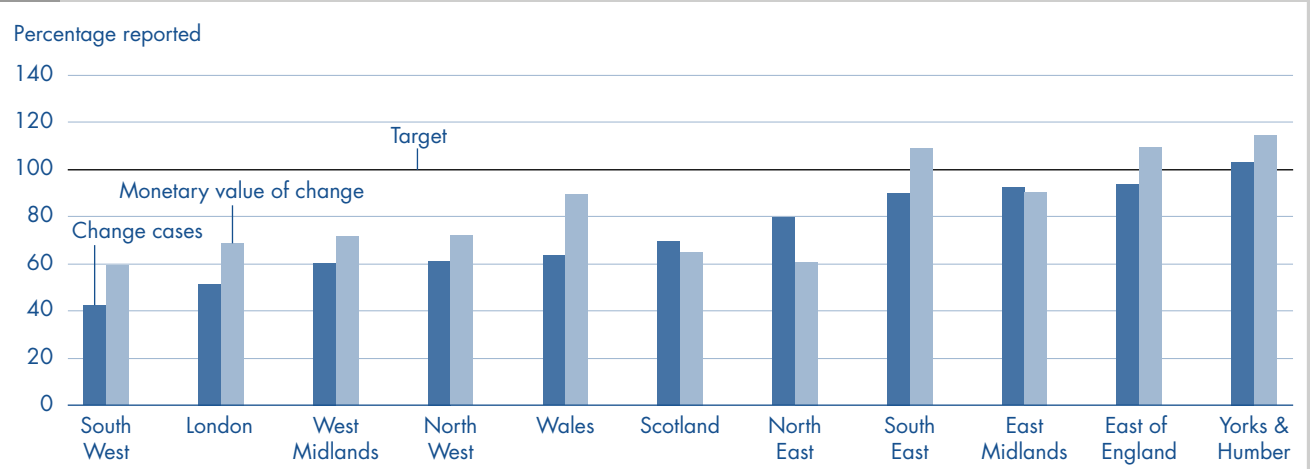
Source: National Audit Office analysis of Jobcentre Plus management information

**NOTE**

During 2005-06, Customer Compliance was piloted in Yorkshire & the Humber and the East Midlands, so in these areas the Fraud Investigation Service was not carrying out compliance work. The classification of 'sanctions' in Organised Fraud changed during 2006-07, so the comparison with the previous year is not included.

18 Due to changes in Jobcentre Plus regional administration, the 2000-01 data does not map directly on to the current regional structure.

**33** Regional compliance performance



Source: National Audit Office analysis of JobCentre Plus management information.



## APPENDIX FOUR

### The Six Interventions we studied

#### “Targeting Benefit Thieves” Advertising Campaign

##### Description

The Department has delivered a national advertising campaign to deter benefit fraud since 2001, through TV, radio commercials, a website, newspaper and magazine adverts, billboard advertising and flyers. Campaigns with updated messages and approaches are run regularly. The aim of the campaign is two-fold - to increase anxiety among those committing or considering benefit fraud and to maintain public perception that benefit fraud is a crime and is taken seriously.

The current campaign is called ‘No Ifs, No Buts’. Its focus is on personal responsibility and aims to get ‘under the skin’ of current or future fraudsters.

##### Staffing and resources

The campaign is organised and delivered by staff in the Marketing and Communications team who are located in the Communications Directorate of the Department. It uses a flexible approach to staffing and delivery of each campaign using ‘virtual’ teams. They include staff from across the Department who work on a project as and when required.

The most recent campaign in 2006-07 cost £6.5 million, although budgets change year on year depending on the size and nature of each campaign.

##### Delivery

In delivering each new campaign, the team:

- Work up proposals for new campaigns based on customer research and evaluation of previous campaigns.
- Develop a campaign strategy which is then approved by Ministers, the Department and stakeholders.

- Set a delivery process in place including contracting with suppliers, as well as tracking and evaluation activities.

There is a close working relationship with the Fraud and Error Strategy Division (FESD) from which they take advice and request funding. Staff from the Hotline and Fraud Investigation Service also input into new campaigns.

The Central Office of Information (COI) work with the Department on its campaign and have responsibility for bringing similar or conflicting Government campaigns to the Department’s attention. The Department exchange information on campaign content with HM Revenue and Customs and share the findings from its research. The campaign has been adapted by around 100 local authorities as a template for their areas.

##### Targets, results, achievements

Advertising does not have any Public Service Agreement (PSA) targets which they specifically need to address as a service. However, the work they do contributes to the delivery of the fraud PSA target 10a / 10b.

##### Outcomes

Advertising cannot demonstrate a direct outcome of reducing benefit fraud. However, research found that between 2005 and 2006 there was an increase from 75 per cent to 83 per cent in the proportion of people who strongly agree that it is wrong to claim the benefits to which they are not entitled.

TV advertising is the most remembered media and plays an important part in keeping campaigns in the mind of the general public. “Benefit fraud is a crime” is the strongest performing message of the campaign. Success is measured by progress against three objectives: to increase awareness amongst claimants of what constitutes benefit fraud; to increase fear and awareness of the likelihood of getting caught; and to maintain public acceptance that benefit fraud is wrong.

## Other

It is likely that the current approach to advertising will change in the future. The Department needs to consider new approaches and new technology in order to keep the message fresh. Smarter data matching techniques may mean that large national advertising campaigns may no longer be required.

Future advertising campaigns may focus on error as well as fraud.

## National Benefit Fraud Hotline

### Description

Launched in 1996, the National Benefit Fraud Hotline receives calls from the public and generates referrals for investigation by counter-fraud teams. It also manages a web site which takes direct referrals from the public. Members of the public may also contact the Hotline to make fraud referrals by email or post.

In 2005 it moved from Benefit Processing Directorate to Contact Centres Directorate to bring it in line with the Department's other call centres and to make use of the expertise within this Directorate.

### Staffing and resources

The Hotline employs 40.2 full time equivalent staff (March 2007) and often relies on temporary staff. Phone operators require excellent communication and literacy skills and undergo an initial five-day training programme. A team supervisor checks a proportion of referrals as a quality control. Operators do not have fraud investigation experience but usually receive a seminar from a fraud investigator when they start. There is subsequently little regular contact with investigators, but on occasion fraud investigators are invited to attend the Hotline to provide staff with feedback on referrals.

The Hotline is supported by two other call centres within the directorate and can use a private provider, BroadSystems (Vertex from October 2007). These centres provide out of hours cover and an extra resource at peak call times.

In 2006-07, the Hotline cost £1.35 million, of which the main costs were staff £877,000 and telephone charges of £450,000.

## Delivery

The Hotline is the primary source of referrals from the public who suspect incidences of benefit fraud. Allegations can be about any benefit administered by the Department or its agencies. It also provides a shared hotline service for 214 local authorities (Local Authority Fraud Hotline).

Operators guide callers through a series of questions, following a desk aide memoire. They record answers on a referral form, which when complete is printed off and posted to the geographically appropriate team in the Fraud Investigation Service. Members of the public may also make allegations of fraud via the Department's website. These are input onto a referral form and then follow the same process. Hotline operators also carry out some basic traces, such as to confirm whether allegedly fraudulent customers are actually in receipt of benefits. The Department anticipates that the introduction of the Fraud Referral and Information Management System will automate the referrals process.

The Hotline's main internal relationships are with the rest of Contact Centres Directorate; the advertising campaign; the Fraud Investigation Service; and Customer Compliance.

### Targets, results, achievements

The Hotline has two aims: to encourage the public to help detect benefit fraud by providing a free, confidential reporting service; and to refer the information gathered promptly to the fraud community. Its two targets are to refer 70 per cent of its calls on to the Fraud Investigation Service, and to keep calls within 9 minutes (increased to 10 minutes from April 2007 to allow for introduction of FRAIMS).

In 2006-07, the Hotline answered 215,924 calls. Of these, approximately 79.4 per cent were passed on for further action.

### Outcomes

The Hotline is solely a referral service. It is dependent on other parts of the counter-fraud process to follow up and investigate cases. It is, however, an outward facing part of the process and plays an important role in identifying cases and engaging with the public.

### Other

Internet referrals, which currently work off a stand-alone computer, are not automatically loaded on to FRAIMS. Hotline staff have to retype these referrals manually onto the new system.

## Data Matching Service

### Background

Data matching is the interrogation or comparison of two or more different data sets to identify patterns or anomalies. The Department has a dedicated Database and Matching Service (DMS) to identify possible fraud and error using Departmental and other data. Detected anomalies are sent for further investigation to the Fraud Investigation Service and Customer Compliance.

The service has been in operation for over ten years. The function moved from Jobcentre Plus to the Information Directorate in October 2005, where it then formed part of the DMS team based at Lytham St Annes.

### Staffing and resources

The DMS Lytham team comprises 103.39 full time equivalent staff overall (March 2007). Staff resources are shared between component units in the following proportions:

- 25 per cent Generalised Matching Service, detecting fraud & errors in benefit systems.
- 40 per cent Housing Benefit Matching Service, detecting fraud & errors in Housing Benefit, which is administered by local authorities.
- 25 per cent Corporate & Cross-Government Matching Unit, which uses GMS technology to deliver departmental non-fraud activities (e.g. identifying target clientele for policy initiatives), as well as doing work for other government departments.
- 10 per cent Audit Trail Analysis System, which helps counter internal fraud and provide assurance of fiscal probity

Data matching is currently part of the Department's headcount reduction strategy and is likely to see some reduction in staff numbers. Estimates suggest that overall DMS (Lytham) staffing by the end of April 2008 will be around 90 FTE, down from 103.39 in 2006-07.

Data matching is also provided to HM Revenue and Customs and the Department of Health as well as the Audit Commission and Local Authorities. This generated income of £275,000 in 2006-07.

Delivery DMS detects potential fraud and error by matching data:

- across benefit systems;
- between other Government departments and Department for Work and Pensions data;
- for other Government departments;

- for Local Authorities on Housing and Council Tax Benefits; and
- to tackle internal fraud.

Data matching is reactive rather than proactive, delivering data matching services based on clients' requests to match specific data sources. There is no 'point of claim' matching although future plans to modernise and link systems to a new data warehouse will allow data matching to be more timely.

### Targets, results, achievements

Through its work to provide referrals for investigation, DMS contributes to the Department's PSA targets 3, 5, 6, 7, 8, 10a and 10b.

In 2006-07, it issued 638,000 referrals which identified approximately £195.6 million of overpayments (both fraud and error) within the benefits system. This is up from 244,833 referrals issued and £77.2 million overpayments identified in 2002-03. In 2006-07, 49 per cent of referrals related to Housing Benefit, 36 per cent to Jobcentre Plus benefits, and the remainder split between the Disability and Carers Service, National Insurance and The Pension Service (15 per cent). The DMS generates too many referrals to be followed up, as it is easy for the Service to increase the volume of referrals by running additional matches at low cost. During 2006-07, Jobcentre Plus actioned a greater number of data matching referrals than in previous years.

The service has recently been set a target of identifying £200 million of overpayments in the benefit system through data matching and is also currently negotiating specific targets with its customers on matches and delivery.

### Outcomes

The service is dependent on others to reduce fraud but is clear on its important role in identifying potential cases for others to follow up. DMS referrals made up 18 per cent of all referrals in 2006-07.

### Other

There are plans to modernise and change the way data matching is delivered in the future. In the short term, the introduction of the new FRAIMS IT system should provide an automated feed of referrals from data matching, likely to speed up the process.

The Department's new data warehouse will provide a more timely feed of data (some on a daily basis) to DMS. This is likely to reduce the number and value of overpayments within the benefits system as data matching will identify anomalies in the system shortly after input preventing overpayments from building up.

## Customer Compliance

### Description

Customer Compliance is used to correct cases of suspected benefit fraud where a full criminal investigation is not deemed appropriate. Cases perceived to have a lower risk or unlikely to result in a sanction are referred for compliance activity. Customer Compliance was rolled out nationally in April 2006, and so far has had only one complete year in operation.

### Staffing and resources

Customer Compliance sits within the Customer Service Directorate. The service is delivered regionally through the network of 870 local and regional Jobcentre Plus offices across the country. There are 875 full time equivalent staff who carry out compliance visits. According to the standard operating model, they report to district managers within Jobcentre Plus, and performance in Customer Compliance is analysed by regional performance managers.

There are currently two different structures in operation in Customer Compliance. Some teams are organised according to the standard operating model, reporting to district managers. Other teams, such as in the East Midlands, are centrally managed by region under a dedicated Compliance Manager. Some 89 per cent of current compliance staff are former investigators and have experience in conducting criminal investigations.

The Customer Compliance budget is part of the money given to district managers. In 2006-07, an estimated £22.45 million was spent on Customer Compliance around the country, with annual expenditure ranging from £1.3 million in the Wales region to £3.8 million in London.

### Delivery

Customer Compliance primarily consists of a face to face interview with the customer with the aim of:

- finding incorrectness;
- putting it right and recovering overpayment; and
- ensuring future compliance.

If new and / or substantial evidence of fraud is discovered, cases may be referred to the Fraud Investigation Service for criminal investigation.

Once cases have been identified as low risk using the assessment tool (FRISC), they are sent to the regional Jobcentre Plus offices for further action. Compliance teams rely also on Fraud Investigation Service to pass on those cases which, on initial investigation, do not merit a full criminal investigation. With the recent introduction of FRAIMS, FRISC assessments will be automatic.

### Targets, results, achievements

In 2006-07, Customer Compliance's key management indicators were to change 135,010 cases to deliver £6.5 million monetary value of adjustment. In 2007-08, the target was revised down to 107,000 changes and to deliver £6.7 million of adjustments.

It reported delivery of 95,673 changed cases (71 per cent achievement against profile) and £5.25 million of adjustments (81 per cent achievement against profile).

Fewer cases than expected have flowed from the Fraud Investigation Service to Customer Compliance, which is not yet operating at full capacity.

### Outcomes

The Compliance model aims to deter low level fraudsters from re-offending. It also puts right incorrect benefit and so should help reduce inaccuracies in the system. In the longer term, a preventative effect is expected as the Department's action against low level fraud is increasingly visible.

### Other

There is a small central team in Jobcentre Plus which is responsible for guidance and policy. It forms part of the Programme Protection Expert Domain and is located within the Products and Services Division, under the Board member responsible for Transformation and Product Management. This team has no responsibility for performance of Customer Compliance against its targets.

The Department intends that FRAIMS will be used to record management information and assist in transferring cases from the Fraud Investigation Service to Customer Compliance.

## Fraud Investigation Service

### Description

The Fraud Investigation Service (FIS) investigates cases of suspected fraud with the aim of achieving a sanction. Like Customer Compliance, FIS was created in 2006 out of the previous Counter-Fraud Investigation Service, as a result of the 2002 Fraud Review.

### Staffing and resources

FIS operates at a national level in the Benefits and Fraud Directorate, with investigation teams organised into eleven areas by region. Area investigation is supported by 18 Operational Intelligence Units, also located around the country. There is an additional Organised Fraud unit, and also a Financial Investigation Unit which recovers money in accordance with proceeds of crime and confiscation legislation.

At March 2007 there were 2,895 staff in FIS, which is expected to rise to 3,110 by March 2008.

The total annual budget of FIS in 2006-07 was £106.8m. In 2006-07, FIS received a total of 450,264 referrals, of which 1,662 were referrals for Organised Fraud.

### Delivery

Referrals are received into an Operational Intelligence Unit. All except GMS referrals are processed using FRISC, a computer system which allocates referrals to Customer Compliance or to FIS according to assessed risk.

In 2006-07, 215,635 (48 per cent) of the referrals were accepted for FIS action at an estimated average cost of £496 per investigation. Of the rest, 125,005 were deemed to have no fraud action and were not pursued.

Fraud Investigators examine cases of alleged fraud, drawing on intelligence services from the Operational Intelligence Units. At any one time, a Fraud Investigator may have a caseload of around 30 cases. Fraud Investigators are trained in investigative techniques, including surveillance and conducting interviews under caution.

On examination, some cases sent to FIS may not warrant a full criminal investigation. These are passed to Customer Compliance to have the benefit corrected without further activity from FIS.

During the course of an investigation, the customer may be interviewed under caution, using legislative powers. Cases are passed to Decision Makers, located outside of FIS, to resolve on the amount of fraud which occurred. Depending on the strength of the evidence and the amounts and risks involved, cases may then proceed to prosecution or conclude with an administrative penalty or a caution.

FIS has key relationships with other elements in the counter-fraud process: the Hotline and Data Matching Service for referrals; Customer Compliance; the Prosecution Division; and Debt Recovery. Some investigations are carried out in conjunction with local authorities, and with input from the police and other law enforcement bodies.

### Targets, results, achievements

In 2006-07, the Fraud Investigation Service's target was to achieve 23,000 criminal sanctions, of which 8,050 would be sent for prosecution action.

It exceeded its targets in 2006-07, achieving 31,998 criminal sanctions and 10,166 recommendations for prosecution. FIS also issued 12,022 cautions and 9,810 administrative penalties.

### Outcomes

The Fraud Investigation Service is central to achieving the Department's PSA target 10 of reducing overpayments from fraud and error.

### Other

The FRAIMS programme will be rolled out to FIS and used as a case management system. Investigators hope that FRAIMS will make it easier for them to keep track of the outcome of their cases.



## Prosecution Division

### Description

The Department employs its own Prosecution Division, which examines cases for suitability of prosecution, prepares them for court proceedings and brings them before Magistrates or, in more serious cases, Crown Courts. It also advises on potential prosecutions and conducts conviction checks on the Police National Computer.

In operation since 1983, it provides services to the Department as well as other government departments, including the Department of Health, the Medicines and Healthcare Products Regulatory Agency and some local authorities for housing benefit fraud. Cases from Jobcentre Plus represent 95 per cent of its caseload.

### Staffing and resources

The Prosecution Division employs 134 members of staff, of whom 29 are lawyers (March 2007). There has been a reduction of 27 staff since 2002-03.

The Division is based within the Law, Governance and Special Policy Group of the Department. However, the decisions on which cases to prosecute are independent and subject to supervision by the Attorney General.

The budget for 2006-07 was £7 million, which was exceeded by £2.4 million. The budget pays not only for the direct expenses of the Prosecution Division, but also the costs of employing counsel and agent solicitors who present cases in court. The Prosecution Division generated revenues of £1.06m in 2006-07 from providing services to other government departments.

### Delivery

Benefit fraud cases are received from Central Preparation Teams (part of FIS) or directly from fraud investigators. Cases are assessed by lawyers, who reject around 10 per cent. Those cases accepted are prepared for prosecution and presented in court either directly by a lawyer of the Division or by an agent solicitor.

The Division conducts between 7,000 and 8,000 prosecution cases a year, of which around 1,000 are cases of organised fraud. Due to a change in the Attorney General's guidelines two years ago, it can also give FIS advice 'where appropriate'. The Division's work is completely demand-led.

Despite 94 per cent of defendants pleading guilty, it is necessary to prepare all cases court-ready. There are a number of self-imposed time targets (28 days for summary matters, eight weeks for cases less than £20k, 12 weeks for cases £20k or more).

12-month-summary offences are automatically dealt with by Magistrate Courts, a generally cheaper and faster route than Crown Court cases. But due to delays in overpayment decisions or investigation processes, this time limit is often not achieved and in 2006-07 only 6 per cent of all cases taken to court were summary offences (compared to 66 per cent in 2003-04).

### Targets, results, achievements

The shift to Customer Compliance for low-level fraud cases has also contributed to the increase in more serious and complex fraud cases being prosecuted. This shift in the case structure consumes considerably more resources, but the budget has remained the same since 2004-05.

The overall success rate in 2006-07 – share of cases resulting in conviction – is 90.3 per cent.

### Outcomes

In 2006-07, the Division recovered £4.1 million in costs, compensations and confiscations while the running of the Division and the costs of prosecutions amounted to £7.1 million.

However, successful prosecutions of benefit fraudsters serve as an important deterrent effect which is difficult to quantify.

### Other

There are possible plans to increase the financial threshold in which cases are dealt with in Magistrates Courts (up to £35,000), which is cheaper, quicker and most convictions are no longer than 12 months. At the time of our study this was being piloted in the Cardiff office and was rolled out nationwide in October 2007.



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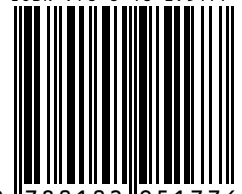
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