

Department for Work and Pensions:
Resource Accounts 2007-08

Report by the Comptroller and Audit
General

Introduction

- 1 The resource accounts of the Department for Work and Pensions include expenditure of £135.2 billion on benefits, employment programmes and their related administration costs, together with the assets and liabilities at the year end.
- 2 Under the Government Resources and Accounts Act 2000, I am required to give an opinion on whether, in all material respects:
 - i. The Department's resource accounts give a true and fair view of the state of the Department's affairs as at 31 March 2008, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses, and cash flows for the year then ended; and
 - ii. Expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them (the "regularity" opinion).
- 3 From 1999-2000¹ to 2006-07 the audit opinion on the truth and fairness of the accounts was qualified because of material uncertainties over the completeness of debtors arising from overpayments of benefits. For 2007-08, the Department has obtained agreement from the Treasury not to pursue potential overpayments arising prior to 1 April 2007 other than those identified in the normal course of business, as to do so would not represent value for money. It has also implemented improvements in its systems for recovering benefit overpayments arising from changes in claimants' circumstances. I have therefore been able to satisfy myself that debtors at 31 March 2008 show a true and fair view of amounts due to the Department.
- 4 This year, as in recent years, the Department has continued to address the matters which give rise to the longstanding qualifications of my opinion. The increase in the level of benefit overpayments referred for recovery means that I no longer need to qualify my opinion on the truth and fairness of the Department's accounts. This is a

¹ 1999-2000 was the first year of Resource Accounting in central government and therefore the first time that the Comptroller and Auditor General was required to give an opinion on balance sheet disclosures.

significant milestone towards meeting the Department's declared ambition to enable its accounts overall to be free of qualification. Paragraphs 47 to 53 of this report describe the Department's actions to improve assurances about the level of overpaid benefit debtors reported in the accounts and provide more detail on the reasons which have enabled me to conclude that I should no longer qualify my opinion in respect of these amounts.

- 5 I have nevertheless qualified the regularity aspect of my audit opinion on the Department's 2007-08 accounts because of the material level of fraud and error in benefit expenditure, other than State Pension which accounts for nearly half of that expenditure and has a low level of error. Primary legislation specifies entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. Where benefit is paid to an individual who is not entitled to that benefit or at a rate which exceeds that specified in the legislation, the excess expenditure has not been applied to the purposes intended by Parliament. Where the Department makes benefit payments at rates either more or less than those specified in legislation then such transactions do not conform to the authorities which govern them.
- 6 Note 44 to the Department's resource accounts discloses the best estimate of all such payments. As shown in Note 44 to the Accounts, some £57.5 billion (45.6 per cent) of this expenditure relates to State Pension payments and £68.6 billion (54.4 per cent) to other benefits administered by the Department. The Department estimates that in 2007-08 fraud and error within State Pension expenditure resulted in overpayments of £0.11 billion (0.2 per cent of related expenditure) and underpayments of £0.09 billion (0.2 per cent of the relevant expenditure). The Department also estimates that, for other benefits, fraud and error resulted in overpayments of £2.5 billion (3.8 per cent of relevant expenditure) and underpayments of £1.0 billion (1.4 per cent of relevant expenditure). Where fraud and error results in over or underpayment of benefits the transactions are not in conformity with the primary legislation which specifies the entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid.
- 7 I have therefore qualified my opinion on the regularity of benefit expenditure other than State Pension because of: the level of overpayments attributable to fraud and error which do not conform to Parliament's intention; and because of the level of under and over payments in such benefit expenditure which are not in conformity

with the relevant authorities. This report provides further explanation of the reasons for my qualified audit opinion and comments on the challenges faced, and actions being taken, by the Department to reduce the level of fraud and error in benefit expenditure (paragraphs 8 to 46).

Benefit expenditure

- 8 Total expenditure on benefits in 2007-08 was some £126.1 billion of which £106.5 billion was in respect of benefits paid directly by the Department and £19.6 billion in respect of benefits paid on the Department's behalf by local authorities. Note 44 to the Department's resource accounts sets out expenditure by benefit type and the extent of fraud and error as estimated by the Department. The note also explains the extent of statistical uncertainty inherent in these estimates. The estimate of fraud and error disclosed in the accounts is, nevertheless, the best measure currently available and the Department has been at the forefront of fraud and error measurement².
- 9 For 2007-08 the Department estimates that losses of £2.7 billion have arisen through overpayment of benefits to claimants, representing 2.1 per cent of benefit expenditure, compared to £3.3 billion or 3.2 per cent of expenditure in 2000-01, the first year for which such estimates were produced. These figures are not directly comparable as the Department has introduced a number of improvements to its measurement processes during this period. The 2000-01 estimates included payments of Disability Living Allowance, reported as overpayments, which were due to gradual improvements in the medical status of claimants, so that the level of benefit in payment would no longer have been considered to be appropriate to the claimants' current status if it had been reviewed. From 2004-05, following the National Benefit Review of Disability Living Allowance, these payments, estimated at that time as £700 million, have been omitted from estimated overpayments reported by the Department, because no specific date has been determined at which a change in health impacts on the claimant's entitlement. Until a fresh assessment of the

² My report "International Benchmark of Fraud and Error in Social Security Systems" (HC1387 2005-06) noted that the Department compared well with other countries in its focus and initiatives to combat fraud and error.

claimant's health is carried out, the existing level of benefit remains consistent with legal requirements.

10 In the past year, overpayments have remained flat at £2.7 billion (£2.7 billion in 2006-07). The increase in overall expenditure on benefits between the two years has resulted in overpayments as a percentage of benefit expenditure reducing from 2.2 per cent to 2.1 per cent. Figure 1 shows the value and percentage of overpayments over the past 5 years.

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

Year	Total benefit expenditure £ billion	Due to Official error £ billion	Due to Customer error £ billion	Due to fraud £ billion	Total £ billion	Percentage of total benefit expenditure
2007-08*	126.1	1.0	0.9	0.8	2.7	2.1
2006-07**	119.8	0.9	1.0	0.8	2.7	2.2
2005-06	115.8	0.9	1.0	0.8	2.7	2.3
2004-05	110.9	0.9	0.8	0.9	2.6	2.3
2003-04	105.8	0.8	0.7	1.0	2.6	2.4

Source: Department for Work and Pensions Resource Accounts

**State Pension has been included for comparative purposes only. This year the audit opinion has not been qualified in respect of fraud and error relating to this benefit.*

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

11 Within total benefit expenditure of £126.1 billion in 2007-08, State Pension accounts for £57.5 billion (45.6% of benefit expenditure). The Department has consistently reported lower levels of error in State Pension with under 0.2% of overpayments by value. Excluding State Pension, the level of error reported this year by the Department is 3.8%.

12 The Department also estimates that underpayment of benefits represents some £1.1 billion or 0.8 per cent of expenditure, an increase on 2004-05, the earliest available figures, when estimated underpayments were £0.8 billion (0.7 per cent of expenditure in that year). Underpayments for 2006-07 were estimated at £1 billion, equivalent to

0.8 per cent of expenditure in that year. More detailed analysis of errors from underpayments is only available in a consistent form from 2005-06 and is shown in Figure 2. The Department considers that the increase in the value of underpayments over the three years at least in part reflects improvements in its procedures for measuring and estimating underpayments across that period.

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

Year	Total benefit expenditure £ billion	Due to Official error £ billion	Due to Customer error £ billion	Total £ billion	Percentage of total benefit expenditure
2007-08*	126.1	0.44	0.64	1.1	0.8
2006-07	119.8	0.4	0.6	1.0	0.8
2005-06	115.8	0.4	0.5	0.9	0.8

Source: Department for Work and Pensions Resource Accounts

**State Pension has been included for comparative purposes only. This year the audit opinion has not been qualified in respect of fraud and error relating to this benefit.*

Excluding the low level of underpayment on State Pension, which again is estimated to be below 0.2%, the percentage of estimated underpayments during 2007/08 is 1.4%

- 13 The majority of benefits paid directly by the Department in 2007-08 were processed through its three agencies: Jobcentre Plus, The Pension Service and the Disability and Carers Service³. Housing Benefit and Council Tax Benefit are administered by local authorities who receive grant from the Department to fund the payments they make. The overall improvement in performance has been achieved alongside efficiency savings entailing a net reduction of over 30,000 staff.

³ The Pension Service and the Disability and Carers Service merged to become the Pensions, Disability and Carers Service on 1st April 2008.

The Department's Agencies

- 14 Jobcentre Plus is the largest of the Department's agencies, employing around 67,000 staff working through 51 districts and with 87 benefit delivery centres and 31 contact centres. Jobcentre Plus is directly responsible for administering some £22 billion of payments covering around 6.7 million claims during 2007-08. Principal benefits administered are Income Support, Jobseeker's Allowance and Incapacity Benefit (£18 billion in total in 2007-08). The Agency is also responsible for Bereavement Benefit, Statutory Maternity Pay, Severe Disablement Allowance and Industrial Injuries Benefit (£4 billion in total in 2007-08). Jobcentre Plus also acts as a gateway for a number of other benefits such as Housing Benefit and it manages the Fraud Investigation Service for the Department as a whole. The Service operates the National Fraud Hotline.
- 15 The Disability and Carers Service employed around 6,000 staff and was responsible for some £15.6 billion of benefit expenditure covering Disability Living Allowance, Attendance Allowance, and Carers Allowance. The Service has approximately 5.6 million claimants. Disability Living Allowance and Attendance Allowance are non means tested, tax free benefits for people who require help with personal care or who have mobility difficulties due to physical or mental disabilities. Unlike most other benefits they are not conditional on employment or low income. Carers Allowance makes a contribution to the financial needs of people who, for 35 hours a week or more, care for severely disabled persons in receipt of Disability Living Allowance or Attendance Allowance. Additionally the Agency handled Vaccine Damage Payments of around £1 million which are one-off tax free payments made to people who have suffered severe disability as a result of vaccination against certain diseases.
- 16 The Pension Service employed around 12,000 staff paying benefits of some £67 billion to approximately 12 million pensioners. State Pension is the principal benefit together with State Pension Credit accounting for around £64.2 billion of expenditure. The Agency also administered around £2.3 billion of Winter Fuel Payments and pensioners' Christmas Bonuses. State Pension is predominantly contributory and is funded by the National Insurance Fund. Pension Credit is a means tested benefit for those whose income falls below a minimum guaranteed level. Winter Fuel Payments are made annually to help people aged 60 and over with the costs of heating and are

paid at a weekly rate when the temperature drops below the qualifying threshold. The Christmas Bonus is a non-means tested annual payment.

- 17 The Department is also responsible for paying grants to 408 first-tier local authorities in England, Scotland and Wales to fund Housing Benefit and Council Tax Benefit. Payments of grant are made on account and each local authority provides an audited statement annually to the Department on which the final entitlement to the grants is based. Adjustments to amounts paid by the Department are made in the following year.

Performance across benefit streams

- 18 Performance across different benefit streams varies significantly as shown in Figure 3. The benefits system is complex, encompassing over 27 individual benefits and involving a caseload of around 19 million people during 2007-08. Some benefits are more easy to administer than others, including for example the Christmas Bonus to pensioners, which is payable to all claimants of State Pension age, Severe Disablement Allowance and some other incapacity related benefits, which are payable at a flat rate. Other benefits are more complex and more prone to fraud and error. Means tested benefits such as Jobseeker's Allowance or Income Support, for example, require consideration of a range of income and expenditure information for a potential claimant to establish eligibility to, and the value of, the benefit and may be subject to numerous changes as the claimant's circumstances change.
- 19 Additionally, the benefits system is targeted at those most in need of assistance in society, many of whom may not find it easy to supply the personal data required because of their lifestyle, personal circumstances, learning and literacy difficulties for example. The Department's staff have often to make complex judgements based on information provided by the claimant and often within tight timescales. These factors contribute to the propensity for fraud and error in the benefits system.

Figure 3: Analysis of fraud and error by benefit category and error type for 2007-08

Benefit	Total expenditure £ billion (Percentage of total)	Overpayments £ billion (as a percentage of total expenditure on those benefits)	Fraud £ billion (%)	Customer error £ billion (%)	Official error £ billion (%)
<i>Income related benefits directly administered by Department</i>	£18.7 bn (14.8%)	£0.98 bn (5.3%)	£0.44 bn (2.4%)	£0.19 bn (1.0%)	£0.36 bn (1.9%)
<i>Income related benefits administered by local authorities on Department's behalf</i>	£19.6 bn (15.5%)	£0.92 bn (4.7%)	£0.17 bn (0.9%)	£0.49 bn (2.5%)	£0.26 bn (1.3%)
<i>Total income related benefits</i>	£38.3 bn (30.4%)	£1.90 bn (5.0%)	£0.61 bn (1.6%)	£0.68 bn (1.8%)	£0.62 bn (1.6%)
<i>Contributory, disability and other non-income related benefits</i>	£87.8 bn (69.6%)	£0.8 bn (0.9%)	£0.19 bn (0.2%)	£0.22 bn (0.3%)	£0.38 bn (0.4%)
Overall total	£126.1 bn	£2.7 bn (2.1%)	£0.8 bn (0.6%)	£0.9 bn (0.7%)	£1.0 bn (0.8%)

Source: Departmental data

- 20 Fraud and error are lowest for those benefits which are easier to claim and relatively easy to determine such as those where entitlement is based on contributions paid. In 2007-08, although contributory, disability and other benefits accounted for almost three quarters of all benefit expenditure, overpayment errors accounted for just over a third of all losses. Overpayments on contributory, disability and other non-income related benefits were some £0.8 billion or just under 1 per cent of the amounts paid out. Official error was the most significant cause of overpayment error, accounting for just under half (£380 million) of the estimated total sum lost on such benefits.
- 21 Fraud and error are more frequent on income related benefits. These benefits require a claimant's financial circumstances to be taken into account and small changes in those circumstances can have a material impact on entitlement. Income related benefits represent just over a quarter of all benefit payments but incur just under two

thirds by value of the total estimated overpayment error. The total estimated value of fraud and error is around 5 per cent of sums paid out in contrast to just under one per cent for the easier to determine and administer benefits. In focussing my examination on those areas with the higher levels of error, the aim is to direct attention to the issues offering most scope for continued improvement.

- 22 The causes of fraud and error on income related benefits are attributable broadly equally to fraud, customer error and official error. For income related benefits administered directly by the Department, however, fraud is the largest cause of overpayments at 2.4 per cent of expenditure and official error the second largest, representing around 1.9 per cent of sums paid out. Customer error costs around 1 per cent of expenditure. Local authorities are responsible for administering Housing and Council Tax benefit on the Department's behalf, and for these benefits customer error is the primary cause of overpayments, followed by official error then fraud.
- 23 Customer error presents its own challenges. In awarding benefit, the Department has to decide whether on the balance of probabilities the claimant is entitled to it. The Department needs sufficient evidence to make that decision: it should not give the claimant the benefit of the doubt. But nor can it always expect to establish entitlement beyond reasonable doubt. There may therefore be cases in which the Department is obliged on the available evidence to make an award, which would not therefore be without authority though an undetected element of customer error might still be present. It is not at present possible, however, to estimate the proportion of such error that the Department might reasonably have been expected to detect; nor to determine whether in all such cases the customer error was genuinely in good faith.

Contributory, disability and other benefits

- 24 Figure 4 analyses overpayments due to fraud and error on contributory, disability and other benefits by benefit stream. Fraud and error are lowest in State Pension because the benefit is easy to claim, relatively straightforward to determine, and largely unaffected by changes in circumstances. State Pension is the largest single benefit stream accounting for some £57.5 billion or around 45 per cent of the total expenditure of £126.1 billion but attracts overpayments of only 0.2 per cent. Incapacity Benefit and Disability Living Allowance attract similar over-payment rates of just less than 2 per cent of expenditure with Incapacity Benefit being more prone to official error than other contributory benefits. The qualifying criteria for Incapacity

Benefit are more complex, including the requirement for a certain level of National Insurance credits, and the potential for entitlement to change in the shorter term.

Figure 4: Analysis of fraud and error in contributory, disability and other benefits by benefit stream and error type for 2007-08

<i>Contributory and disability benefits</i>	Total expenditure £ billion (Percentage of total)	Overpayments £ billion (as a percentage of total expenditure on those benefits)	Fraud £ billion (%)	Customer error £ billion (%)	Official error £ billion (%)
Incapacity benefit	£6.7 bn (5.3%)	£0.12 bn (1.7%)	£0.01 bn (0.1%)	£0.02 bn (0.2%)	£0.09 bn (1.3%)
State Pension	£57.5 bn (45.6%)	£0.12 bn (0.2%)	£ nil (N/A)	£0.05 bn (0.1%)	£0.07 bn (0.1%)
Disability Living allowance	£9.9 bn (7.9%)	£0.18 bn (1.9%)	£0.05 bn (0.5%)	£0.06 bn (0.6%)	£0.08 bn (0.8%)
<i>Other non-income related benefits (includes Carers and Attendance Allowance, Maternity Pay etc)</i>	£13.7 bn (10.9%)	£0.38 bn (2.8%)	£0.13 bn (0.9%)	£0.09 bn (0.7%)	£0.14 bn (1.0%)
Total contributory, disability and other non-income related benefits	£87.8 bn (69.6%)	£0.8 bn (0.9%)	£0.19 bn (0.2%)	£0.22 bn (0.3%)	£0.38 bn (0.4%)
Total benefit expenditure including income related benefits	£126.1 bn	£2.7 bn (2.1%)	£0.8 bn (0.6%)	£0.9 bn (0.7%)	£1.0 bn (0.8%)

Source: Departmental data

25 The majority (99.8%) of the value of State Pension in payment is contributions based. The level of fraud and error in State Pension has been consistently low because the benefit calculation is based on National Insurance records and is not dependent on information supplied by the claimant. Accuracy is therefore largely dependent on the accuracy of records of National Insurance Contributions throughout the claimant's working life. HM Revenue and Customs are responsible for maintaining National Insurance records and for their accuracy. The Department's estimates therefore assume that the records are reliable. Reported error arises largely from revisions to

the National Insurance Recording System which are not carried through into benefit payments, and from a small number of cases where the award has been incorrectly calculated.

- 26 The Department does not carry out continuous testing of the accuracy of Disability Living Allowance because the benefit has historically been subject to lower levels of fraud and error. The level of overpayments is therefore estimated by the Department based on the proportion of errors reported in a National Benefit Review of Disability Living Allowance carried out in 2004-05. The estimated overpayments of 1.9 per cent exclude payments which may arise because the rate of payment has not reflected improvements in the current medical status of the claimant whose case has not been reviewed, as described in paragraph 9 of this report. These payments may arise from gradual improvements in the health of individuals and the Agency is not able to determine with any accuracy the exact point in time at which the improvement would have warranted a change in benefit award. The estimate of overpayments within Incapacity Benefit is based on a National Benefit Review undertaken in 2000-01.

Income related benefits

- 27 Figure 5 analyses overpayments on income related benefits by benefit stream and error type. Income related benefits administered directly by the Department attract broadly similar overpayment rates of just over 5 per cent of expenditure with fraud being the largest cause of overpayments on Income Support and Jobseeker's Allowance and official error on Pension Credit. The reduced proportion of fraud in Pension Credit is likely to be attributable to the apparent lower propensity to commit fraud in certain age groups. The higher level of official error is attributable to the complexity of this benefit, although the Department has introduced measures to simplify administration. Whilst customer error accounts for only a small amount (0.3 per cent) of overpayments on Jobseeker's Allowance, it is the cause of around 1 per cent of fraud and error on the other two income related benefits administered by the Department. Customer error is also the most significant factor on Housing and Council Tax Benefit administered by local authorities for the Department.

Figure 5: Analysis of fraud and error in income related benefits by benefit stream and error type for 2007-08

<i>Income related benefits</i>	Total expenditure £ billion (Percentage of total)	Overpayments £ billion (as a percentage of total expenditure on those benefits)	Fraud £ billion (%)	Customer error £ billion (%)	Official error £ billion (%)
Income support	£9.1 bn (7.2%)	£0.48 bn (5.3%)	£0.26 bn (2.9%)	£0.08 bn (0.9%)	£0.14 bn (1.5%)
Jobseeker's allowance	£2.2 bn (1.7%)	£0.11 bn (5.0%)	£0.07 bn (3.0%)	£0.01 bn (0.3%)	£0.04 bn (1.7%)
Pension credit	£7.4 bn (5.9%)	£0.39 bn (5.3%)	£0.11 bn (1.5%)	£0.10 bn (1.3%)	£0.18 bn (2.5%)
<i>Income related benefits directly administered by Department</i>	£18.7 bn (14.8%)	£0.98 bn (5.3%)	£0.44 bn (2.3%)	£0.19 bn (1.0%)	£0.36 bn (1.9%)
Housing and Council Tax Benefit administered by local authorities on Department's behalf	£19.6 bn (15.5%)	£0.92 bn (4.7%)	£0.17 bn (0.9%)	£0.49 bn (2.5%)	£0.26 bn (1.3%)
<i>Total income related benefits</i>	£38.3 bn (30.4%)	£1.90 bn (5.0%)	£0.61 bn (1.6%)	£0.68 bn (1.8%)	£0.62 bn (1.6%)
Total benefit expenditure including contributory, disability and other benefits	£126.1 bn	£2.7 bn (2.1%)	£0.8 bn (0.6%)	£0.9 bn (0.7%)	£1.0 bn (0.8%)

Source: Departmental data

28 The higher than average levels of fraud and error in Income Support and Jobseeker's Allowance reflect the means tested basis of those benefits and their comparative complexity. Pension credit is also a means tested benefit and relies on customers providing accurate information at the outset of the claim as well as notifying any subsequent changes in circumstances. Benefits which are contingent on income, on availability for work, or (as in the case of some contributory and disability benefits)

on medical evidence, are inherently more difficult to determine, not least because all of these entitlement conditions are subject to variation over time.

- 29 The Department relies partly on local authorities' external auditors to certify the regularity of grant claims in respect of Housing and Council Tax benefit. It also checks directly the accuracy of payments in respect of Housing Benefit (which it uses to estimate fraud and error in Council Tax Benefit, a comparatively small benefit). Housing and Council Tax Benefits are means tested, and may also depend on whether the claimant is in receipt of "passport" benefits such as Jobseeker's Allowance. Errors made in administering those benefits can therefore affect the level of fraud and error within Housing and Council Tax Benefits. The level of estimated fraud and error varies significantly between claimants. For those of working age the rate is estimated at 6.1 per cent whilst for those of pensionable age the rate is 2.3 per cent.

Initiatives to reduce fraud and error

- 30 The Department and its agencies have a number of initiatives underway to reduce the level of fraud and error in benefit payments:

The Pension Service

- 31 In January 2002 The Pension Service launched its Pensions Transformation Programme with the aim of transforming the way in which its core services are delivered. A principal objective of the scheme is to enable information collected for State Pension purposes to be used within a State Pension Credit application, the latter being more prone to fraud and error as a means tested benefit. The programme has been rolled out across pension centres, supported by new IT systems. Pension Credit was introduced in October 2003 and since 2003-04 the overall level of fraud and error has remained constant at around 5.3%. Fraud has increased from 1.3 per cent in 2003-04 to 1.5 per cent in 2007-08 and official error has risen from 2.1 per cent to 2.5 per cent. Customer error has been reduced from 2 per cent in 2003-04 to 1.3 per cent in 2007-08, as a result of information campaigns and improved leaflets.
- 32 In 2005-06 The Pension Service launched its Programme Protection Strategy to assist in the reduction of fraud and error. This programme aims to improve working practices to reduce the incidence of new errors. It has introduced a programme of checks designed to correct errors in existing benefit awards and improved

management information to aid the better targeting of preventative and corrective action.

Disability and Carers Service

- 33 From 2007-08 the Disability and Carers Service introduced a Right Payment Programme for Disability Living Allowance, the major benefit in its workload and which also acts as a passport for other disability related benefits. As part of this programme the Disability and Carers Service has undertaken a postal survey to identify the current status of claimants. The survey comprises a sample of claimants judged by the Service as having the greatest propensity for a change in circumstances, together with a random sample of all recipients which will provide a measure of the potential monetary value of fraud and error in the benefit.
- 34 Over half of the Service's customers were over pensionable age, and the merger of the Disability and Carers Service with The Pension Service from 1 April 2008 is intended to aid a more co-ordinated approach to delivering products and services designed around customers' needs, to share expertise and to improve customer service.

Jobcentre Plus

- 35 The overpayment rate for Income Support and Jobseeker's Allowance has reduced significantly since 2003-04 from £820 million (7.8 per cent of expenditure) to £590 million (5.2 per cent of expenditure) in 2007-08. In 2006-07 Jobcentre Plus introduced an Enhanced Checking Regime aimed at reducing the level of official error in the calculation of the complex benefits within its responsibilities. Specialist checking teams have been established in each Benefit Processing Centre which undertake targeted and random checks on benefit calculations. Benefit claim processing teams are made aware of common errors identified through the checks, and where appropriate internal training programmes have been updated.

Departmental Initiatives

- 36 Alongside action by the Department's Agencies, the Department has implemented a number of initiatives to reduce fraud and error. In our recent report⁴ on progress in

⁴ Department for Work and Pensions – Progress in tackling benefit fraud (HC 102 2007-08)

tackling benefit fraud we drew attention to initiatives to combat fraud including advertising campaigns, fraud investigation procedures, customer compliance, data-matching, the National Benefit Fraud Hotline and prosecutions. Our main conclusions were as follows.

- Good progress had been made in reducing the estimated value of benefit fraud, which represented a substantial achievement by the Department and its staff.
- The Department has developed a more risk-based and intelligence-led approach to countering fraud, using a risk assessment tool to prioritise cases, and had started to roll out a new case management system to speed up processing and consistency in handling of cases. The Department has also introduced a “customer compliance function” to deal with lower risk cases.
- The Department is ahead of equivalent bodies in other countries in understanding and tackling the problem of fraud.

37 We also reported that the Department could further improve its performance through:

- improved management information on the cost and effectiveness of counter-fraud measures and the effectiveness of customer compliance work; and
- creating better cohesion in targets between different parties involved in countering fraud, including debt recovery.

38 Official error is directly within the Department’s control and, in January 2006, it established an Official Error Task Force aimed at supporting a demonstrable and measurable reduction in benefit complexity and, by implication, official error rates. Building on this initiative, in January 2007, the Department published “*Getting Welfare Right: Tackling Error in the Benefit System*”, a strategy designed to achieve £1 billion of savings from overpayments by 2012 but also focussing on reducing errors resulting in underpayments to claimants.

39 The Department is attempting to minimise customer error by simplifying benefits where possible, and in 2005 a dedicated Benefit Simplification Unit was established.

On Pension Credit, for example, the Department has reduced the amount of evidence which the claimant needs to produce in support of a claim.

- 40 The Department aims to enhance customer engagement through establishing single points of contact covering several benefits. Restructuring within The Pension Service for example, now enables the same staff to deal with queries about State Pension and Pension Credit entitlements. For a number of years, Jobcentre Plus has acted as a gateway for applications for a wide range of benefits, many of which are administered by other Agencies within the Department. In April 2008, the Disability and Carers Service merged with The Pension Service to provide a more joined-up approach to administering multiple benefits to individual claimants.
- 41 The Department has also rationalised the literature available to customers to assist them in understanding whether they are eligible to specific benefits and, if so, their entitlements and the evidence they will be required to provide.

Working with local authorities

- 42 For Housing and Council Tax Benefit the Department provides full grant funding for expenditure which is deemed by the Department to be beyond the local authority's direct control, and a sliding scale of funding for overpayments which arise from errors made by local authority staff. The Department has also established a performance management regime to encourage local authorities to adopt best practice in the administration of Housing Benefit, including a new output based performance measure from April 2007. The performance measure sets each local authority a target for identifying reductions in benefits overpaid and to prevent overpayments due to customer error entering the system. Such initiatives have helped to reduce fraud over recent years and the Department's action plan aims to achieve further sustainable reductions over the period to March 2011. From 1 April 2008, responsibility for work previously undertaken by the Benefit Fraud Inspectorate has been transferred to the Audit Commission who will be able to combine the activity with their own work in this area as the external auditors of local government.

Conclusion on fraud and error

- 43 I welcome the efforts being made by the Department to further improve the accuracy of benefit payments. The transparency of the Department's performance in tackling fraud and error is greatly enhanced by the disclosures in Note 44 to the accounts. For example, it is clear that income related benefits represent just over a quarter of all benefit expenditure, but incur just under two thirds by value of all overpayment errors made, with fraud and error rates of around 5 per cent.
- 44 Equally clear is that the Department has reported significant success in tackling fraud, which represents £0.8 billion of overpayments and 30 per cent of the loss to the Exchequer. We acknowledged in our recent report⁵ that, having made this progress in recent years, the Department would find it increasingly difficult to make significant further savings year on year.
- 45 On customer error, the Department has not reported any progress on its overall performance since 2000-01. Customer error will always remain a challenge. System and process design and application can help to minimise customer error but is unlikely to eliminate it entirely. The Department is focussing on increasing customer awareness and accessibility to the Department and the provision of quality advice by its staff.
- 46 Official error has increased as a percentage of the value of fraud and error with the complexity of many benefits representing a major factor. Official error amounts to some £1 billion of the loss to the Exchequer (37 per cent of the total reported loss). The Department recognises that reducing official error is more readily within its control than some other causes of fraud and error and has a task force in place aimed at improving accuracy. In 2009-10, I plan to report to Parliament in more detail on the Department's actions to reduce official error, with a view to promoting a better understanding of the causes and possible remedies.

⁵ Department for Work and Pensions – Progress in tackling benefit fraud (HC 102 2007-08)

Debt due from customers due to the overpayment of benefits

Background

47 Where a customer of the Department or its Agencies is overpaid benefits, for example because their circumstances have changed, the identified overpayment is in principle recoverable. In previous years the opinion on the Department's accounts have been qualified because it was not clear that the Department had identified and recorded in its accounting records all the sums due to it. The reasons for the qualified opinion on the completeness of debtors in the accounts were as follows.

- The Department held and was receiving information that could be used to identify and recover previously overpaid benefits, but did not process such information in a timely or consistent way.
- This failure to recover debts arising from benefit overpayments had occurred over many years with the likelihood that the potential unpursued debt arising from benefit overpayments was a substantial amount.

Progress made in 2007-08

48 During 2007-08 the Department and its agencies have continued to improve their performance in identifying overpayments and increasing significantly the rate at which those overpayments are referred to the central debt management team for assessment and recovery. The Department considers that by March 2008 the majority of overpayments that could be identified in the normal course of business were being referred for recovery decisions in a timely manner. Figure 6 shows the increase in referrals and recoveries between 2005-06 and 2007-08, including the year on year percentage increases. In the two years since 2005-06, referrals have increased from 815,000 to 1,300,000 (an increase of some 60%) and the value of recoveries has gone up from £180 million to £272 million (an increase of 51%).

Figure 6: Increase in overpayment referral rates and recoveries 2005-06 to 2007-08

Year	Overpayment Referral Volumes	Year on year percentage change	Recoveries (£m)	Year on year percentage change
2007-08	1,300,000	+32.7%	272	16.7%
2006-07	980,000	+20.2%	233	+29.4%
2005-06	815,000	N/A	180	N/A

Source: Departmental data

- 49 The Department has also undertaken several exercises to assess the value for money of pursuing debt from earlier years. These exercises considered the cost and likelihood of identifying recoverable debts against the recoveries they were expected to yield. The Department concluded that the pursuit of debtors arising from the overpayment of benefits in years prior to 2007-08 was not economic unless such debts were identified in the normal course of future business.
- 50 Stressing the performance improvements made and the value for money considerations of pursuing older debts, the Department sought and received agreement from the Treasury for a change in accounting policy to not pursue any unidentified unrecovered overpayments from years prior to 2007-08. This agreement is reflected in the Department's revised approach to the recovery of overpayment debt, as set out in note 1 to the Department's resource accounts.
- 51 The Department is satisfied that it now has robust procedures in place for identifying, referring and pursuing, where appropriate, debt arising from benefit overpayments and has sought assurance from its Risk Assurance Division (Internal Audit) on the adequacy and operation of those processes by year end. Work undertaken by my staff suggests that the overpayment referral processes in place were not fully functional in all Agencies and across all benefit streams for the entire accounting year, but there is sufficient evidence that significant performance improvements were achieved by the year end.

Conclusion on the completeness of benefit overpayment debtors

- 52 I am satisfied that any potential referrals of overpaid benefit not identified in the normal course of business in 2007-08 are not material to the accounts at 31 March 2008, and I have not therefore qualified my audit opinion on the Department's 2007-08 accounts in respect of this matter. The Department should, however, embed the performance improvements made in debt identification, referral and recovery processes across all Agencies and benefit streams if it is to prevent in future years a reoccurrence of the backlog of unreferral overpayments with the risk that material omitted debtors may recur. In granting approval to not pursue unidentified and unrecovered overpayments from years prior to 2007-08, the Treasury drew attention to the need for the Department to consider the value for money implications of this action. I am currently undertaking a value for money study of the Department's approach to debt management and plan to report in more detail on this matter in 2009.
- 53 The Department has significantly improved the rates of referral of overpayments for recovery action in recent years, leading to additional funds recovered of some £53 million in 2006-07 and £92 million in 2007-08 over the £180 million recovered in 2005-06.

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