NAO
National Audit Office

Department for Work and Pensions

Minimising the cost of administrative errors in the benefit system

Summary

1   In 2009-10 the Department for Work and Pensions (the Department) paid out £148 billion in benefits and pensions to its customers. The benefit system is large, encompassing over 27 different benefits and a total caseload of around 20 million people. The scale of this task increases further when changes in family circumstances and financial conditions are also taken into account. Benefit payments are typically dependent on the accuracy of the underlying information, such as an applicant's financial status, health and residential arrangements. Mistakes occur when processing such a large volume of payments.

2   The extent of fraud and error has been a longstanding issue for the Department. When we compared the performance of the Department against that of similar organisations in other countries in July 2006, we found that the Department demonstrated better awareness through its measurement of error and of what might be done to prevent and correct such mistakes. At that time, the Department was at the forefront of developing estimates of losses and in measuring fraud and error more comprehensively than other comparable countries. We rely in part on that measurement system for our audit of the Department's resource accounts. The Department estimates that it made £3.1 billion of overpayments and £1.3 billion of underpayments as a result of fraud and error in 2009-10. As the amounts are an estimate (based on data for the period October 2008 to September 2009), the actual figures are likely to be within a range: between £2.7 billion and £3.8 billion for overpayments and between £900 million and £1.8 billion for underpayments. For brevity we do not refer to the range each time we specify an estimated error amount in this report, except where there are any comparisons of one year against another. The central estimate of fraud and error is nevertheless the best measure currently available. The scale of incorrect payments each year has led the Comptroller and Auditor General to qualify the Department's resource accounts for over 20 years. The Comptroller and Auditor General's report on the Department's resource accounts for 2009-10 acknowledged the significant work undertaken by the Department to reduce fraud and error within the benefit system in recent years.

3   Underpayments or overpayments can arise when:

- the Department pays benefit incorrectly due to inaction, delay or mistaken assessment, which we term an administrative error;

- where a customer inadvertently makes an error, termed customer error; or

- where a customer deliberately seeks to mislead the Department (fraud).

4 This report covers administrative errors made by the Department, termed "official error" in the publications by the Department. The Department estimated that administrative error led to £1.1 billion overpayments in 2009-10 (0.7 of a per cent of expenditure) and underpayments of £500 million (0.3 of a per cent of expenditure). Underpayments due to administrative error put an unfair burden on people whereas overpayments represent a direct loss to the taxpayer as the amounts are not normally recoverable.

5 Responsibility for minimising the cost of administrative error rests with the Department and its two agencies: Jobcentre Plus and the Pension, Disability and Carers Service. Local authorities administer Housing Benefit and Council Tax Benefit on the Department's behalf, which accounts for 17 per cent of overall benefit expenditure and for just under 25 per cent of the overall level of administrative error. In 2007 the Department published a strategy entitled: *Getting welfare right: Tackling error in the benefit system*. The strategy acknowledged that too many customers received incorrect payments, and it set out a series of initiatives to pursue over the next five years (see **Figure 1**). This report examines the value for money of how the Department has managed its interventions to reduce administrative error. Value for money depends upon the Department having:

- sufficient information on the reasons why errors occur in order to target initiatives to best effect;

- regular monitoring of the cost and impact of initiatives so that priorities can be periodically reviewed; and

- timely interventions to limit the extent of any under or overpayments arising from an error.

Figure 1

The Department's initiatives to minimise the cost of administrative error

Prevention	Simplification of benefit rules and business processes.
	Information technology system fixes and enhancements to reduce the occurrence of specific errors.
	Improvements in the way data is used.
Compliance	Accreditation schemes for decision-makers to apply across the Department by 2012.
	Improved guidance for staff on how to process benefits.
	Improved training to increase staff knowledge of benefits.
Correction	Targeted case cleansing exercises.
	Deployment of error action teams.

Source: National Audit Office summary of the Department's 2007 strategy to tackle fraud and error

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6   The Government published a new fraud and error strategy covering the Department for Work and Pensions in October 2010, *Tackling fraud and error in the benefit and tax credits systems*. The lessons learned from our examination of the implementation of the 2007 strategy will be important to the success of the new approach.

Key findings

There is no clear evidence that the Department's commitment to reducing administrative error has led to a significant improvement in performance

7   In our meetings with the Department, officials reiterated their commitment to tackling administrative error. The Department published its strategy *Getting Welfare Right: Tackling Error in the Benefit System* in 2007 and there has been a regular and constant management oversight of progress.

8   The Comptroller and Auditor General reported in the Department's 2009-10 resource accounts that the complexity of the benefits system means that benefits will always be subject to some degree of error – human error can and does occur even in the best designed systems. Complexity in the benefit system has been a matter of concern to the Government for a number of years. It is not a new issue, and is largely the result of an accumulation of years of legislative change from successive governments designed to try to keep pace with the changing social and economic circumstances of the Department's customers. The Department is of the view that its customers' circumstances have changed more frequently than in the past, and these have added to complexity in the benefit system; we have been unable to substantiate this. These problems are compounded by the fact that many of the Department's IT systems are relatively old and difficult to change. As a result, the evolving benefit systems and the challenge in responding promptly generate the risk of error.

9   Simplification can be difficult to achieve without reform of the welfare system. The Government's recent announcement of the introduction of Universal Credit is an opportunity to simplify many of the regulations, but such changes will take a long time to implement. In the meantime, the onus remains on the Department to keep the costs of mistakes to a minimum.

10   The 2007 strategy led to a range of initiatives to tackle administrative error, including:

- Jobcentre Plus set up dedicated action teams to clear data matching backlogs and deal with complex cases where error was more likely to occur.

- The Pension, Disability and Carers Service established a programme of case-load cleansing and an enhanced checking regime.

- The Department introduced a number of IT system enhancements, such as a customer information system to share common data across existing IT systems in order to reduce the risk of administrative error.

11 Despite these efforts, the Department's commitment has served only to hold the level of error steady, not to reduce it. Between 2006-07 and 2009-10 there has been no discernible decrease in the estimated cost of overpayments or underpayments due to administrative error as a percentage of benefits expenditure. The cost of overpayments as a percentage of expenditure has remained at 0.7 of a per cent. Underpayments as a percentage of expenditure have changed from 0.4 of a per cent in 2006-07 to 0.3 of a per cent in 2009-10, but this difference may simply be due to the sampling process used – it is not sufficient to show any trend.

12 In practice the absence of any discernible deterioration in performance reduction may, however, represent progress by the Department. The recession posed a significant challenge as the Jobseeker's Allowance caseload almost doubled within 12 months. In April 2008 there were 188,000 applications but this had increased to 365,000 in May 2009 and necessitated the Department having to assign additional staff to handle the extra workload. As recruitment takes time, the Department had to transfer existing staff to retrain them to handle the increased workload on Jobseeker's Allowance. The fraud and error measurement undertaken between October 2008 and September 2009 does not show any significant increase in the error rate for this benefit.

13 The overall rate of administrative error for overpayments and underpayments (0.7 of a per cent and 0.3 of a per cent, respectively) represents an average across all benefits and masks wider variations in specific benefits. The costs of administrative errors are proportionately higher in means tested or disability related benefits where entitlement depends on collating and assessing a wider range of information. There was a relatively low rate of error in processing the State Retirement Pension, which comprised 45 per cent of benefits expenditure in 2008-09, whereas State Pension Credit, which is a more complex benefit, had an error rate of 1.8 per cent for overpayments and 1.2 per cent for underpayments.

14 There are also noticeable variations in the accumulated overpayments that customers can receive. In 2009-10, for example, 19 per cent of the £53 million new debt registered for Income Support that year was for accumulated overpayments of more than £10,000 per claim. The Department recorded 268,876 overpayments resulting from administrative error in 2009-10, and in that year wrote off administrative error debts to the value of £143 million.

The Department does not have sufficient data on why errors have occurred

15   The Department relies on the testing of a sample of approximately 30,000 payments a year to estimate the volume and value of error. The report by the Committee of Public Accounts on *Progress in Tackling Benefit Fraud* previously recognised that the Department was better placed to quantify levels of fraud and error than other national social security agencies. Our follow-up examination has found that whilst the testing process provides better estimates of administrative error than most other public and private sector bodies, it has not been designed to provide much information on why the mistakes occurred:

● The testing process allows the Department to categorise each error according to the type of mistake made, but we found the results difficult to analyse. There were too many error category codes to allow helpful analysis. The error codes provided details about the nature of the error, but gave little information on where in the process the error occurred, or the reasons why it arose. In April 2010 the Department revised its error coding structure. The revisions simplify the number of codes available and better explain what each category means, but the process will only ever give limited insight into the underlying causes of each mistake.

● The Comptroller and Auditor General in his report on the Department's 2009-10 Resource Accounts acknowledged the planned work to systematically review each of the Department's current fraud and error reduction initiatives to ensure that they are focused on the root causes of fraud and error and ensure that resources are directed to maximum effect. This exercise is expected to be complete in Spring 2011. We had reviewed similar exercises previously, but this was the first time the Department had committed to a systematic review of each benefit and is clearly a step in the right direction.

● The problems facing staff in processing a claim could prove valuable in monitoring the reasons why errors occur. Jobcentre Plus has an internal advice line, for example, which receives around 5,000 calls per month from staff seeking advice or clarification on how to handle specific claims. In 2009 the Agency started to record the nature of the enquiries to its helpline, but it has not yet been able to generate management information from this data.

16   Both agencies operate extensive checking frameworks where errors are identified at local level and, in the case of the Pension, Disability and Carers Service, through a National Accuracy Support team. Jobcentre Plus reviewed nearly 541,000 transactions in 2008-09 through its quality assurance arrangements, but the information collected does not enable comparisons between different parts of the delivery chain. Unlike the arrangements in the Pension, Disability and Carers Service, each checking team is resourced locally and therefore not independent of the local office.

17 In order to develop our own understanding of why administrative errors arise we undertook a series of workshops, focus groups and interviews in September 2009 with the Department's staff. We surveyed all the 82 Managers at Benefit Delivery Centres and Pension Centres, invited over 50 staff to workshops and interviewed a further 106 staff (such as team leaders and benefit processors) to seek their views on the causes of error and possible remedial actions. Whilst staff views are qualitative in nature and represent the perceptions of a small group of representatives, they did, however, raise some broad reasons why errors might occur. Amongst the reasons for administrative error put forward were the following:

● Different computer systems were used to process benefits but they did not communicate well with each other.

● Training was considered inadequate – learning and development for new staff was criticised for poor delivery; training facilitators lacked technical expertise; and training packages were described as being out of date, incomplete and did not mirror the real work.

● Staff commented that the guidance did not always give them the help needed to get things right. Support for staff was not always readily available when they encountered problems.

● Concern for the targets which offices and individuals work towards did not always encourage accurate processing. The staff noted that they thought local offices were working towards conflicting targets and that there was an imbalance between quality and quantity.

● Staff reported that human error was also a key factor in administrative errors. By this they meant a transcription or typographical mistake in data entry.

18 Such views need to be treated with caution without more robust evidence to support the points made. The comments did offer an insight into staff attitudes, however, so we provided the Department with more detailed information on our findings from this work in early 2010. Officials confirmed that the information was used to help define the revised fraud and error strategy published in October 2010.

In the absence of data we could not establish that the Department had consistently targeted its resources and initiatives to the best effect

19 The Department analysed the cost effectiveness of some of its interventions in 2009 and it reported a net return on each activity, but the costs were not measured on a complete or consistent basis. We were unable to establish all associated overheads, such as accommodation, management oversight or amortised IT costs, and some interventions included direct staff costs only. In the past the Department has not regularly compared the costs and benefits of each of its interventions, but the Department told us that it is now looking at this type of analysis as part of its new benefit review process.

20 The Department does not, however, take into account the cost subsequently incurred in correcting the error. The cost of such re-work varies between cases, depending on the nature of the error and the type of benefit. As the Department estimates that there were nearly a million administrative errors in Income Support, Jobseeker's Allowance and State Pension Credit alone in 2008-09, such costs could be considerable.

21 The Government published a new fraud and error strategy in October 2010, which places a greater emphasis on preventing errors from arising in the first place. Such an approach could increase its impact in reducing administrative error, but progress will depend upon:

- translating that strategy into a clear set of actions that everyone in the Department and its agencies is committed to implementing; and,

- having a clear measurement regime in place in order to know whether the actions taken are delivering the desired results.

Conclusion on value for money

22 The Department and its senior officials are clearly committed to reducing the cost of administrative error, and it is frustrating that there has been no discernible reduction since 2007. Their existing approach, however, lacks the information needed to target initiatives effectively and thus the sophistication needed to achieve a significant reduction. The Department has yet to develop a consistent method of assessing the cost effectiveness of its interventions and lacks costing data on the consequences of error such as re-works. Accordingly, the Department does not have sufficient evidence to demonstrate that existing activities to reduce administrative error have been value for money.

Recommendations

23 The Department's publication of a revised fraud and error strategy in October 2010 is an opportunity to re-assess existing priorities, to assign clear responsibilities at operational level, and to put in place a more systematic approach to minimising administrative error and monitoring progress. Accordingly we recommend that the Department should:

a **Collect data to improve understanding of costs and benefits of different interventions.** This should involve:

- developing a systematic costing model that would include the indirect as well as the direct costs of each intervention. Such a model would be helpful at the business case stage and for subsequent monitoring of progress; and

- developing an approach to estimate the full costs of re-working administrative errors so as to provide a better understanding of the costs and consequences of such errors.

b   Collate better information on why administrative errors arise. The Department has already confirmed that it is undertaking a more detailed examination of errors to determine their underlying cause. This should not be the only source of information, however, and this information should be supplemented by:

- instigating more systematic feedback from quality assurance teams on where errors have arisen and why the mistakes occurred. This should include regular reports on the nature of staff enquiries to internal helplines; and

- drawing on the results of our workshops to capture staff perceptions by encouraging staff feedback or suggestions on how quality can be improved.

c   Assigning clear responsibilities at operational level so that the Department and its agencies understand their role in minimising administrative error. This should involve:

- developing a methodology to hold managers to account by monitoring the progress made by each operational manager in improving levels of accuracy;

- specifying processing accuracy targets at operational level so that each centre can fully understand its own contribution to error reduction; and

- regular monitoring so that any decline in performance automatically triggers remedial action.

24 **Improving quality control arrangements to prevent errors arising in the first place is likely to be a more effective approach. Instigating such a strategy should involve:**

- introducing an accreditation system for staff in Jobcentre Plus responsible for quality checking in order to determine common standards of approach;

- reviewing training provision and staff feedback mechanisms to inform the development of guidance, interventions and procedures; and

- timely interventions to limit the extent of any underpayments or overpayments arising from an error.