National Audit Office

Department for Work and Pensions: 2012-13 Accounts

Report by the Comptroller and Auditor General

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Universal Credit Assets

Background

1. The Welfare Reform Act 2012 sets out the Government's proposals to replace six existing means-tested benefits for working age households with a Universal Credit. The Universal Credit programme has been under development since 2010. Following serious concerns expressed about the programme by the Major Projects Authority in February 2013, the Government initiated a Reset of the programme that took place between February and May 2013. This Reset resulted in a new blueprint for Universal Credit in May 2013 and the development of a new delivery approach under a new Senior Responsible Owner (SRO).

2. In November 2013, the Ministerial Oversight Group for Universal Credit approved the new delivery approach proposed by the SRO and authorised an investment in developing a new digital solution for delivering Universal Credit. The Group also approved further investment in the existing IT functionality to support Universal Credit claims from couples and families, and to do so across a wider geographical region.

3. The Department deferred submission of its 2012-13 Annual Report and Accounts for audit until the Ministerial Oversight Group had reached the above conclusion. As a consequence, I needed to consider carefully the impact of the Ministerial Oversight Group's decision to develop a digital solution on the Department's valuation of its existing Universal Credit IT assets.

4. In my report "Universal Credit: early progress" (HC 621) published in September 2013, I commented on the problems the Department had faced in developing and implementing Universal Credit, and on the IT problems in particular. In that report, I concluded that at this early stage of the Universal Credit programme the Department had not achieved value for money.

5. I have not qualified my opinion on the Department's 2012-13 Annual Report and Accounts in respect of the carrying value of the Universal Credit

intangible assets. Nevertheless, I have issued this report to draw Parliament's attention to the implications for the use of public funds of the decisions made on the use of the Universal Credit IT assets.

Accounting treatment

6. In its 2012-13 accounts, the Department recognises £668.9 million of intangible assets. £151.9 million of these assets relate to Universal Credit intangible assets as at 31 March 2013. This includes:

	Total Value (£million)	**Universal Credit Assets (£million)**
Purchased Software Licences	99.4	27.1
Payments on Account and Assets under Construction	257.3	124.8
Total carrying value of Universal Credit Assets		**151.9**

7. As at 31 March 2013, the Department had invested some £196.1 million in the intangible assets to support an IT infrastructure for Universal Credit. Following the decision of the Ministerial Oversight Group in November 2013 to approve the development of a digital delivery model, the Department completed an impairment review of the existing Universal Credit IT assets to determine those that continued to have value and reviewed the future economic life of the remaining assets.

8. The Department's impairment review of the assets determined that:
   - Assets valued at £40.1 million are either not in use or will not be in use over the remaining life of the existing IT functionality. The Department has therefore written these assets off and also

recognised a total loss of £41.4 million (which includes £1.3 million of costs which were not capitalised) in the accounts;

- £33.8 million is in use in the existing IT functionality, but is planned to also be used in the new digital solution;
- £31.2 million relates to software licenses that already had a limited life and will either be fully used before 31 March 2018 (£27.1 million) or have been transferred for use elsewhere in the Department (£4.1 million); and
- £91.0 million relates to assets that will be used in the existing infrastructure but have no usability in the digital solution.

As a result the Department has recognised a carrying value for the Universal Credit IT assets of £151.9 million as at 31 March 2013. We consider that figure to be reasonable.

9. The decision of the Ministerial Oversight Group envisages the continued use and development of the existing infrastructure, with a progressive migration to the new digital solution. This is expected to be broadly complete by December 2017. As the Department will therefore continue to operate the existing Universal Credit IT infrastructure until 2017-18, it has determined that the £91.0 million of assets now have a useful life of only five years and it intends to amortise this amount over that period.

10. This is a major change in accounting treatment. The Department's original intention was to use these assets for at least 15 years and to amortise them over that period. As a result of the decision to migrate to a new digital solution by 2017, the Department now intends to use these assets for only five years and to amortise them over this much shorter period. The effect of this is set out below.

	Value at 31.03.13 (£m)	**Useful Economic Life (years)**	**Amortisation per annum (£m) from 2013-14**
Original	91.0	15	6.1

intention			
Current intention	91.0	5	18.2

Longer-term programme uncertainties

11. While the £151.9 million asset recognised in the accounts at 31 March 2013 is free from material misstatement, the overall cost of developing assets to support Universal Credit is subject to considerable uncertainty. The Department acknowledges in Note 16d to the accounts, that there is uncertainty over the useful economic life of the existing Universal Credit software pending the development of the alternative digital solution and uncertainty over whether Universal Credit claimants will be able to migrate from the current IT infrastructure to the new digital solution by December 2017.

12. There were considerable weaknesses in the Department's financial controls over the Universal Credit programme. The Department commissioned an independent review of the financial management of the Universal Credit programme, which reported in August 2013. The report concluded that there were significant limitations in the programme and commercial mechanisms to support the financial management of Universal Credit. Particular criticisms were focussed on the weaknesses in financial governance and reporting within the programme, limited financial control over the programme and the limited Departmental review and challenge over the quality, efficiency and value of services being delivered by suppliers. The Department acknowledges these criticisms and has implemented improvements to the controls over the Universal Credit programme. We expect to see evidence that the Department has indeed enhanced these controls as it develops the digital delivery model for Universal Credit.

13. In approving the development of a digital solution for the delivery of Universal Credit, the Ministerial Oversight Group noted that the investment and recurrent costs of this solution are between £25 and £32 million up to November 2014. The Department's intention is to build a core digital service that will deliver to 100 people by then, after which it will assess the results of that work and consider whether to extend the service to increasing numbers.

At this early stage in its development, there are uncertainties over the exact nature of the digital solution, and in particular:

- How it will work;
- When it will be ready;
- How much it will cost; and
- Who will do the work to develop and build it.

As the Department develops the digital solution, so it will start to recognise some of the costs incurred as assets. Without clear and effective management, in the future the Department may also find it needs to impair some of these new digital assets.

On-going implications for value for money

14. As noted above, in my report “Universal Credit: early progress” (HC 621) published in September 2013, I concluded that at this early stage of the Universal Credit programme the Department had not achieved value for money. I consider this judgement is reinforced by the information in the Department’s 2012-13 Annual Report and Accounts. Up to 31 March 2013, the Department had developed assets with an initial value of £196.1 million for the delivery of Universal Credit. In these accounts it has written off £40.1 million of those assets as it will never use them. It also now expects to write down £91.0 million of the remaining assets to nil value by March 2018, due to the considerable reduction in their expected useful life. While this is the appropriate accounting treatment, it should not detract from the underlying issue that the Department has spent £91.0 million on assets that will only support a limited service for 5 years, with clear consequences for public value.

15. I note above that in November 2013 the Ministerial Oversight Group approved:

- Investment and recurrent costs for the digital delivery solution of between £25 and £32 million up to November 2014. The Department intends this will develop a core Universal Credit service, which will initially be trialled for 100 claimant households. To extend this to further numbers, and to scale it for national roll-out, will cost considerably more; and
- Further investment in the existing IT functionality, at an expected cost of between £37 and £58 million. The Department considers it important to continue to invest and run the existing infrastructure alongside the

development of the new digital platform in order to derive learning and knowledge, and to better de-risk the overall programme.

16. These are considerable sums that the Department is proposing to invest, in a programme where there are significant levels of technical, cost and timetable uncertainty. I reiterate both the conclusion and recommendations from my report in September. The Department has to date not achieved value for the money it has incurred in the development of Universal Credit, and to do so in future it will need to learn the lessons of past failures and:

- Properly commission and manage IT development;
- Exercise effective financial control over the Universal Credit programme; and
- Set realistic expectations for the timescale for delivery.

Fraud and error in benefit expenditure

17. The accounts of the Department for Work and Pensions (the Department) disclose net expenditure of £173.0 billion on benefits, employment programmes and their related administration costs in 2012-13.

18. Under the Government Resources and Accounts Act 2000, I am required to give an opinion on whether, in all material respects:

    - The financial statements give a true and fair view of the state of the Department’s affairs as at 31 March 2013 and of its net operating cost for the year then ended; and

    - The financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

19. In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and revenue recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them (my regularity opinion).

20. In respect of the Department’s 2012-13 accounts I have qualified my opinion on regularity due to the material level of fraud and error in benefit expenditure, other than State Pension where the level of fraud and error is lower. The Department’s accounts, and those of predecessor Departments administering this expenditure, have received similar qualified audit opinions since 1988-89. Issuing an audit qualification is a serious matter, and the fact that similar qualifications have been in place for such a long period of time does not lessen that seriousness. I consider that the overall value of fraud and error in benefit expenditure remains unacceptably high, and the qualification of my audit opinion reflects that.

21. I have also qualified my regularity opinion on the Social Fund White Paper Account for a number of years. However, I have been able to issue a clear opinion on regularity on the 2012-13 Social Fund White Paper Account (HC

393 2013-14) following a substantial and sustained reduction in the estimated level of error for Social Fund benefits. This has happened, at least in part, due to the on-going efforts the Department has made to address the underlying causes of error.

22. Legislation specifies entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. Where fraud and error result in over or underpayment of benefit to an individual who is either not entitled to that benefit, or is paid at a rate which differs from that specified in the legislation, the transaction is not in conformity with the governing legislation and is irregular. In determining whether this should lead to a qualification of my audit opinion, I have chosen to apply a materiality judgement. Consequently, I have decided that low levels of fraud and error will not lead to a qualification, which is why I have excluded State Pension from the qualification.

23. Note 32 to the Department's accounts discloses the Department's best estimate of fraud and error within benefit expenditure. As shown in Note 32, the Department estimates total overpayments due to fraud and error in 2012-13 are £3.5 billion (2011-12 – £3.2 billion), which equates to 2.1% of total benefit expenditure of £166.8 billion (2011-12 – 2.0% on expenditure of £159.0 billion). The Department estimates total underpayments in 2012-13 are £1.4 billion (2011-12 – £1.3 billion), which equates to 0.9% of total benefit expenditure (2011-12 – 0.8%).

24. Within those figures, the Department estimates that in 2012-13, fraud and error within State Pension resulted in overpayments of £0.11 billion (2011-12 – £0.10 billion), which is 0.1% of related expenditure (2011-12 – 0.1%), and underpayments of £0.18 billion (2011-12 – £0.15 billion), which is 0.2% of related expenditure (2011-12 – 0.2%).

25. I have therefore qualified my audit opinion on the regularity of the Department's 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 the levels of under and overpayments in such benefit expenditure are not in conformity with the relevant authorities. This report sets out the reasons and context for my qualified audit opinion by commenting on the key causes of fraud and error in benefit expenditure and the actions the Department is taking to try to reduce it.

26. The report also explains the significant challenge the Department faces in administering a complex benefits system to a high degree of accuracy in a cost effective way. Some benefits, mainly those with means-tested entitlements, are more inherently susceptible to fraud and error due to their complexity, the difficulties in obtaining reliable information to support the claim and the challenges of capturing changes in a claimant’s circumstances. These more difficult to administer benefits, such as Pension Credit, tend to be the ones exhibiting the highest estimated fraud and error rates. The Department is limited in the total resources it can devote to the administration of the complex benefits system, and has to make trade-offs between accuracy checking, customer service and maintaining productivity. We recognise that the Department needs to strike a balance between the need to provide sufficient scrutiny over claims and doing so in a way that is not overly burdensome, otherwise administration of the benefits system would become impractical.

27. Given this, we are working with the Department to develop our approach to evaluating the adequacy of its fraud and error response. We are looking to analyse the Department’s processes for administering benefits by identifying the key steps in the processes (or decision points) and benchmarking these against comparable administrative processes with similar levels of complexity in the private and public sector. The aim of the work is to develop a robust methodological approach to evaluating the maturity and reasonableness of the Department’s attempts to reduce fraud and error, as well as considering the maturity of governance, capability and processes that the Department applies to mitigating fraud and error. The work will also have regard to the particular challenges faced in administering complex, means tested benefits. We are working with the Department to pilot this approach in Pension Credit.

Where do the errors occur?

Overview

28. The Department's total expenditure on benefits in 2012-13 was some £166.8[1] billion, of which £138.1billion was in respect of benefits paid directly by the Department and £28.7 billion in respect of benefits paid on the Department's behalf by local authorities, mainly Housing Benefit and Council Tax Benefit. Note 32 to the Department's accounts sets out expenditure by benefit type, and the Department's estimate of the extent of fraud and error in each type. The estimate of fraud and error disclosed in the accounts is the best measure currently available. Nonetheless, some caution should be exercised when examining the estimates for trends, due to measurement uncertainties explained in the note. In particular, estimated levels of fraud and error in some benefits are a number of years old. Disability Living Allowance, which accounts for £13.5 billion of expenditure, has not been measured for fraud and error since 2004-05, and the Department does not plan to measure its successor benefit, Personal Independence Payment, until 2016-17.

29. The estimates separate the reported incorrect payments into three categories, which the Department defines as follows:

    - Official error arises when a benefit is paid incorrectly due to inaction, delay or a mistaken assessment by the Department, a local authority or Her Majesty's Revenue and Customs (HMRC);
    - Claimant error occurs when claimants make inadvertent mistakes with no fraudulent intent; and
    - Fraud arises when claimants deliberately seek to mislead the Department or local authorities which administer benefits on the Department's behalf to claim money to which they are not entitled.

30. The tables below report fraud and error rounded to the nearest £100 million, and rows and columns may not sum due to rounding. The percentages are, however, calculated on the basis of unrounded figures.

[1] Sourced from note 32 of the DWP Annual Report and Accounts 2012-13.

Figure 1

Estimated overpayments and underpayments by category

Category	2012-13 Total expenditure £ million *	2012-13 Overpayments £ million * (% of related expenditure)	2012-13 Underpayments £ million * (% of related expenditure)	2011-12 Overpayments £ million * (% of related expenditure)	2011-12 Underpayments £ million * (% of related expenditure)
Official error (figure 2)		700 (0.4)	500 (0.3)	800 (0.5)	400 (0.3)
Claimant error (figure 3)		1,600 (0.9)	900 (0.6)	1,300 (0.8)	900 (0.5)
Fraud (figure 4)		1,200 (0.7)	- -	1,100 (0.7)	- -
Total	166,800	3,500 (2.1)	1,400 (0.9)	3,200 (2.0)	1,300 (0.8)

NOTES

Figure Source: Department for Work and Pensions Accounts, Fraud and Error in the Benefit System: Preliminary 2012-13 Estimates (for the 2012-13 estimates), Fraud and Error in the Benefit System: Preliminary 2011-12 Estimates (for the 2011-12 estimates).

*Rounded to the nearest £100 million. Rows and columns may not sum due to rounding.

31. The following paragraphs further analyse the types of fraud and error which commonly arise within the Department's three main error categories of official error, claimant error and fraud. For the purposes of this report, I have primarily focussed on the benefits administered directly by the Department and have discussed the different characteristics of Housing Benefit and Council Tax Benefit, which are administered by local authorities on the Department's behalf, separately in paragraphs 41 to 47.

Official error

32. The Department's 2012-13 estimate of official error (defined in paragraph 29 above) is broken down in Figure 2 below.

Figure 2

Estimated official error

Benefits	2012-13 Total expenditure £ million *	2012-13 Official error overpayments £ million * (% of related expenditure)	2012-13 Official error underpayments £ million * (% of related expenditure)	2011-12 Official error overpayments £ million * (% of related expenditure)	2011-12 Official error underpayments £ million * (% of related expenditure)
Benefits administered directly by the Department	138,100	600 (0.4)	400 (0.3)	700 (0.5)	400 (0.3)
Housing related benefits administered by Local Authorities	28,700	200 (0.6)	100 (0.3)	100 (0.4)	100 (0.2)
All DWP benefits	166,800	700 (0.4)	500 (0.3)	800 (0.5)	400 (0.3)

NOTES

Figure Source: Department for Work and Pensions Accounts, Fraud and Error in the Benefit System: Preliminary 2012-13 Estimates (for the 2012-13 estimates), Fraud and Error in the Benefit System: Preliminary 2011-12 Estimates (for the 2011-12 estimates).

*Rounded to the nearest £100 million. Rows and columns may not sum due to rounding.

33. Official errors can cause hardship to claimants who are underpaid and unfairly reward others who are overpaid at an additional cost to the taxpayer. Such errors can take time to identify and correct and as a result their cumulative

impact on resource and efficiency can be considerable. The overall rate of official error for overpayments and underpayments shown in Figure 2 represents an average across all benefits. In the benefits administered directly by the Department, the costs of official errors are proportionately higher in means-tested or disability related benefits, where entitlement depends on the Department collating and assessing a wide range of information. In general, the more complex the data requirements required to establish entitlement to a benefit, the more difficult it is to administer and therefore the higher the inherent risk of an official error being made. For example, State Pension has an official error rate of 0.1% in overpayments (2011-12 – overpayments negligible) and 0.2% in underpayments (2011-12 – underpayments 0.2%). Whereas Pension Credit, which is more complex to administer due to its means-tested nature, has an official error rate of 1.7% in overpayments and 0.9% in underpayments (2011-12 – overpayments 2.1%; underpayments 0.8%).

Claimant error

34. The Department's estimate of claimant error, as defined in paragraph 29, is shown in Figure 3 below.

Figure 3

Estimated claimant error

Benefits	2012-13 Total expenditure £ million *	2012-13 Claimant error overpayments £ million * (% of related expenditure)	2012-13 Claimant error underpayments £ million * (% of related expenditure)	2011-12 Claimant error overpayments £ million * (% of related expenditure)	2011-12 Claimant error underpayments £ million * (% of related expenditure)
Benefits administered directly by the Department	138,100	600 (0.5)	700 (0.5)	600 (0.5)	600 (0.5)
Housing related benefits administered by Local Authorities	28,700	900 (3.3)	300 (1.0)	700 (2.6)	300 (1.0)
All DWP benefits	166,800	1,600 (0.9)	900 (0.6)	1,300 (0.8)	900 (0.5)

NOTES

Figure Source: Department for Work and Pensions Accounts, Fraud and Error in the Benefit System: Preliminary 2012-13 Estimates (for the 2012-13 estimates), Fraud and Error in the Benefit System: Preliminary 2011-12 Estimates (for the 2011-12 estimates).

* Rounded to the nearest £100 million. Rows and columns may not sum due to rounding.

35. Claimant error accounts for just under half the total cost of the Department's overpayments and around two thirds of the total cost of underpayments, although there are substantial differences in claimant error rates between benefits. As with official error, those benefits with the highest claimant error rates are means-tested benefits, such as Pension Credit and Income Support, which have entitlement conditions that relate to the level of income and/or

savings of claimants. Mistakes can arise here as a result of the claimant failing to provide accurate or complete information to the Department, or having failed to report a change in their circumstances, which leads to an incorrect assessment being made.

36. Claimants have a responsibility, as a condition of receiving benefit, to provide the Department with accurate and complete information and to tell the Department promptly about any changes in their personal circumstances that might affect the amount of benefit to which they are entitled. This relies on claimants being pro-active in notifying changes. The Department has adopted this approach because it does not have routine access to verifiable third party sources of information, or the information may not exist that would allow them to track such changes.

37. The Department has increased its case cleanse activity during the year with the aim of contacting more claimants to determine if their circumstances have changed and to ensure that claimants understand their responsibility to notify the Department of subsequent changes in circumstances that may affect their benefit.

Fraud

38. The Department's estimate of fraud, as defined in paragraph 29, is shown in Figure 4 below.

Figure 4

Estimated fraud

Benefits	2012-13 Total expenditure £ million *	2012-13 Fraud overpayments £ million * (% of related expenditure)	2011-12 Fraud overpayments £ million * (% of related expenditure)
Benefits administered directly by the Department	138,100	800 (0.6)	800 (0.6)
Housing related benefits administered by Local Authorities	28,700	400 (1.4)	400 (1.4)
All DWP benefits	166,800	1,200 (0.7)	1,100 (0.7)

NOTES

Figure Source: Department for Work and Pensions Accounts, Fraud and Error in the Benefit System: Preliminary 2012-13 Estimates (for the 2012-12 estimates), Fraud and Error in the Benefit System: Preliminary 2011-12 Estimates (for the 2011-12 estimates).

* Rounded to the nearest £100 million. Rows and columns may not sum due to rounding.

39. Of the benefits administered directly by the Department, it is the means-tested benefits, such as Jobseeker's Allowance, Income Support and Pension Credit, which tend to have the highest rates of fraud as they require the claimant to supply complete and accurate information in order to establish entitlement to benefit. Most commonly, fraudulent claimant statements relate to the claimant's living arrangements where the claimant has a partner but is claiming and receiving benefit as a single person, or falsely stating the level of their earnings or savings, whether those are legitimate earnings or from the

grey economy. There are also instances where the claimant has provided a false address in order to claim benefit.

40. The Department's research indicates that claimant difficulties in reporting changes in their circumstances, and concerns about potential changes or disruptions to benefit payments, contribute to the problem[2]. The complex administration of benefits also allows potential fraudsters the opportunity to present themselves differently to different administering agencies, which are not always sufficiently integrated to identify those instances. Because the Department does not have a readily available source of external information against which to verify some aspects of claims, such misrepresentations can result in fraud occurring.

Housing Benefit and Council Tax Benefit

41. As noted in paragraph 31, Housing Benefit and Council Tax Benefit are administered by the claimant's relevant local authority on behalf of the Department. Undetected errors in benefits administered directly by the Department, can, however, also lead to errors on Housing Benefit and Council Tax Benefit claims. This is because receipt of income related benefits such as Jobseeker's Allowance or Income Support can be used by a local authority as evidence that claimants are entitled to Housing Benefit and Council Tax Benefit. Therefore, fraud and error in one claim can be passported into the local authority administered benefit. As Housing Benefit and Council Tax Benefit are also means-tested, they are subject to similar limitations around evidence that can be gathered as those means-tested benefits administered by the Department. Consequently, a number of fraud and error types that are common to the means-tested benefits administered by the Department also arise in Housing Benefit and Council Tax Benefit.

42. The Department has a key role in setting the framework within which local authorities must manage benefits. For Housing Benefit, the funding arrangement between the Department and local authorities contains a formula intended to encourage local authorities to make accurate payments by affecting the amounts refunded to them based on accuracy targets. The Department has also established a performance management regime to encourage local authorities to adopt best practice in the administration of

[2] 'Tackling fraud and error in the benefit and tax credits system', October 2010.

Housing Benefit, including an output based performance measure which sets each local authority targets for identifying reductions in benefits overpaid and preventing overpayments due to claimant error entering the system.

43. Common errors arise from poor or non-timely exchange of information between the Department and the local authority with regard to whether a claimant is in receipt of, or entitled to, a qualifying benefit. In practice, given the lack of direct integration between the Department's systems and those of all local authorities, such errors will be difficult to eliminate.

44. There are additional fraud and error risks, which are specific to Housing Benefit and Council Tax Benefit, where the benefit is paid in respect of a specific property. For example, where the claimant moves between local authority areas they may need to communicate effectively with more than one local authority which, again, increases the risk of errors being made or changes in circumstance not being communicated effectively or being fraudulently concealed.

45. From February 2012 local authorities have received details of changes in benefits administered by the Department on a daily basis through Automated Transfers to Local Authority Systems (ATLAS), which is an IT development that automatically informs local authorities of new awards or changes in benefits. The Department hopes that the provision of more timely information on claimant changes will lead to a significant reduction in fraud and error within local authority administered benefits. Its success, though, is dependent on local authorities having sufficient resources to process the data received in a timely manner.

46. Timely, efficient and accurate data sharing will become even more important with the implementation of changes to Housing Benefit from April 2013, which include the removal of the spare room subsidy for working-age tenants living in social housing and the phased roll-out of the benefit cap. These changes impose additional entitlement to benefit criteria based on housing occupancy and the overall level of benefits received.

47. The Department is planning further changes to Housing Benefit in the future as payments to working-age claimants are progressively replaced by Universal Credit. Housing Benefit payments to pensioner claimants is also planned to be replaced by a housing credit element of Pension Credit.

Council Tax Benefit was abolished in April 2013 and replaced by a system of localised support.

Welfare Reform Act 2012

48. On 8 March 2012 the Welfare Reform Act received Royal Assent. Two of the main elements of the Act were the introduction of a new Universal Credit and reforms to Disability Living Allowance, through the introduction of Personal Independence Payment. A phased introduction of Personal Independence Payment started on 8 April 2013, with the Department processing new claims from the north west and north east of England, before aiming to accept new claims from the rest of the country.

49. The Department began a Universal Credit Pathfinder on 29 April 2013, where Universal Credit will be trialled for a limited number of customers. The Department’s aim is to then begin a progressive national roll-out from October 2013. The primary aim of Universal Credit is to create a single streamlined working age benefit, with tapered payments that are structured to encourage claimants to return to work. The Department intends that, in the long term, this streamlining of benefit will remove or reduce some of the current complexities around benefit entitlement, verification of claimant circumstances and administrative requirements that can increase the opportunities for fraud and error.

Future plans

50. The Department fully recognises the problems created by the level of fraud and error in benefit expenditure and has, over the years, made many efforts to reduce it, ranging from introducing data-matching systems, advertising campaigns targeting actual and potential fraudsters and the application of sanctions and prosecutions. Nevertheless, the level of fraud and error within benefit expenditure remains high.

51. Savings are being sought at all levels of Government and as a result there is a strong and continued imperative across Government to reduce fraud and error. This includes cross government initiatives such as the Cabinet Office’s Fraud, Error and Debt Taskforce. In its report *‘Tackling Fraud and Error in Government’* published in February 2012, the Task Force set out a focused

delivery programme that seeks to reduce levels of fraud and error across Government, which includes work undertaken by the Department.

52. The Department's four year fraud and error strategy, published jointly with HMRC in October 2010, was refreshed in February 2012 as part of *'Tackling Fraud and Error in Government'* and intends to deliver significant reductions in the level of fraud and error across benefits and tax credits. The strategy sets out plans to invest £425 million to reduce the monetary value of fraud and error overpayments by over one quarter, or £1.4 billion per year, by March 2015. The Department's share of this planned reduction is some £600 million per year from existing benefits and £200 million per year from the introduction of Universal Credit. The Department aims for such savings to reduce the estimated level of overpayment to 1.7 per cent by 2015.

53. The Department continues to undertake a range of work to respond to fraud and error risks. In 2012-13, this has included preventative work, such as pre-payment accuracy checking and other work in areas such as data matching, where claimant awards are compared against records from other Departmental systems and other government bodies, in order to identify previously undisclosed changes in a claimant's entitlement. From 1 October 2012, the Department also gained new deterrent powers, and can now issue civil penalties of £50 in cases where the claimant's failure to act or negligence has led to an overpayment. Further changes currently underway or planned include the establishment of a new Integrated Risk and Intelligence Service (IRIS) to deliver a new fraud and error prevention capability which will bring about better use of data and analytics to risk assess benefit claims to support targeted interventions by specialist investigation teams; and further pilots for the Single Fraud Investigation Service, which aims to bring the Department's fraud investigation work together with that undertaken by HMRC and local authorities.

54. The Department also plans to begin a progressive national roll-out of Universal Credit from October 2013 to replace a range of existing means-tested working-age benefits and tax credits, which are the benefits that have historically suffered from the highest rates of fraud and error. The Department plans to process and administer Universal Credit using on-line application processes and integrated computer systems and processing teams so as to try to reduce the number of complex interactions between different benefit

systems. These plans also involve new procedures to verify identity and to undertake checks before payments are made.

55. Complementing these reforms, HMRC is introducing a Real Time Information (RTI) system for Pay As You Earn (PAYE), where employers must report employees' income tax and National Insurance deductions on or before payment, rather than after the end of the tax year. The Department plans to use information on employment and pension income from RTI to support Universal Credit and thus link the tax and benefits systems for the first time. I make further comments on RTI, including the challenging timetable for implementation, in my Report on HMRC's 2012-13 Accounts (HC 10 2013-14). The Department hopes that by reducing complexity and improving access to data (including real time information held by HMRC), Universal Credit will reduce many of the fraud and error risks present in existing means-tested benefits.

Conclusion

56. The estimated value of fraud and error overpayments in benefit expenditure in 2012-13 is £3.5 billion, or 2.1% of expenditure; a similar level to 2011-12 (2011-12 – £3.2 billion and 2.0% respectively). Over the period in which fraud and error have been measured by the Department, fraud and error rates have consistently remained at a high level. This has been most notable in means-tested benefits, where entitlement can be based on complex, interlinked or subjective evidence and which the Department is either unsuccessful in verifying, or which it simply gets wrong. These observations have led me and my predecessors to qualify the Department's accounts on the grounds of material amounts of fraud and error in the benefit expenditure system since 1988-89. I consider that this view remains consistent with the views expressed by the Government in the February 2012 Cabinet Office Fraud, Error and Debt Taskforce document *'Tackling Fraud and Error in Government'* that the level of fraud and error in the welfare system is unacceptable.

57. Alongside the NAO's work to attempt to benchmark[3] the Department's approach to fraud and error against comparable processes in the private and public sector with similar levels of complexity, we consider there are steps the Department could take to reduce fraud and error within the existing legislative

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[3] As set out at paragraph 27.

framework. The Department is collating quantitative and qualitative data on fraud and error to identify key risk areas, but needs to better exploit this information to focus its activity to reduce fraud and error, and also needs to analyse the cost-effectiveness of these different activities. This might start with developing a more comprehensive feedback loop. It should ensure such feedback is built into its systems for Universal Credit. This will enable the Department to ensure it targets its limited administration resources on activities with the greatest potential to reduce fraud and error.

58. However, I recognise that no system can ever be perfect, not least because it is difficult to administer a benefits system of such complexity in a cost effective way and because human error can and does occur even in the best designed systems. Consequently, where the Department needs to gather information to process a claim correctly, it has to strike a balance between the need to provide sufficient scrutiny over claims and do so in a way that is not overly burdensome, otherwise administration of the benefits system would become impractical.

59. We note the refreshed approach that the Department has introduced with the aim of reducing fraud and error, which it sets out in more detail within the Annual Report and in Note 32 to the accounts. In its implementation of some radical changes to the benefits system, we recognise the Department is also, in part, attempting to drive down incorrect payments. Only by developing an evidence based framework will the Department be able to demonstrate that its systems are sufficiently optimised to minimise the gap between what it should achieve and what it does achieve.

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