

---

**Department for Work and Pensions: 2013-14 Annual Report and  
Accounts**

**Report by the Comptroller and Auditor  
General**

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

---

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of almost £1.2 billion in 2012.

# Contents

<b>Fraud and error in benefit expenditure</b>	<b>4</b>
<b>Universal Credit assets</b>	<b>22</b>

# Fraud and error in benefit expenditure

1. The Annual Report and Accounts of the Department for Work and Pensions (the Department) discloses net operating costs of £170.7 billion in 2013-14.
2. 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 2014 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.
3. 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).
4. In respect of the Department's 2013-14 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.
5. In contrast, I have again been able to issue a clear opinion on regularity on the Social Fund White Paper Account 2013-14, for the second year in a row. This is because the Department has achieved a substantial and sustained

reduction in the 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 fully identify, analyse and address the underlying causes of error.

6. 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.
7. The Department's best estimate of fraud and error within benefit expenditure is disclosed in Note 28 to the accounts. As shown in Note 28, the Department estimates total overpayments due to fraud and error in 2013-14 are £3.3 billion (2012-13 – £3.5 billion), which equates to 2.0 per cent of total forecast benefit expenditure of £163.9 billion (2012-13 – 2.1% on expenditure of £166.8 billion). The Department attributes the decrease from 2.1% to 2.0% primarily to the removal of Council Tax Benefit from the estimate, following its abolition in April 2013. The Department estimates total underpayments in 2013-14 are £1.4 billion (2012-13 – £1.4 billion), which equates to 0.9% of total benefit expenditure (2012-13 – 0.9%).
8. Within those figures, the Department estimates that in 2013-14, fraud and error within State Pension resulted in overpayments of £0.11 billion (2012-13 – £0.11 billion), which is 0.1% of related expenditure (2012-13 – 0.1%), and underpayments of £0.12 billion (2012-13 – £0.18 billion), which is 0.1% of related expenditure (2012-13 – 0.2%).
9. 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.

10. 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 rates of fraud and error.
11. We do therefore recognise the challenges involved in reducing fraud and error. We are working with the Department to develop our approach to evaluating the adequacy of its response to fraud and error in benefit expenditure. Using Pension Credit as an example, we analysed the Department's processes for administering the benefit, by identifying the key characteristics required for a robust fraud and error response. We then benchmarked these against a maturity model, which reflected comparable approaches 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 also has regard to the particular challenges faced in administering complex, means tested benefits.
12. We undertook this work on Pension Credit during 2012-13, and discussed our findings and analyses with the Department to ensure we have a common view of how and where fraud and error arises in the benefit. Following on from this, the Department agreed to devise a new strategy for preventing fraud and error in Pension Credit, which would address the issues identified through our work. It has yet to produce this strategy, and while appreciating the Department's continuing commitment to do this, in my view it needs to move faster to develop an effective strategy for reducing fraud and error in Pension Credit. Following on from our work on Pension Credit, my staff have undertaken a similar review of Jobseeker's Allowance, a principal working age benefit, and are in the course of discussing the findings with the Department.

## Where do the errors occur?

### Overview

13. The Department's total estimated expenditure on benefits in 2013-14 was some £163.9<sup>1</sup> billion, of which £140.0 billion was in respect of benefits paid directly by the Department and £23.9 billion in respect of benefits paid on the Department's behalf by local authorities (Housing Benefit). Note 28 to the Department's accounts sets out forecast 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. For example, Disability Living Allowance, which accounted for £13.8 billion of expenditure in 2013-14, 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.
14. 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.
15. 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.

---

<sup>1</sup> As per Note 28 to the accounts, the total expenditure figures quoted are the latest estimated expenditure figures available for 2013-14 at the time the Department produced the fraud and error estimates.

Figure 1

Estimated overpayments and underpayments by category

Category	2013-14	2013-14	2013-14	2012-13	2012-13
	Total	Overpayments	Underpayments	Overpayments	Underpayments
	expenditure	£ million *	£ million *	£ million *	£ million *
	£ million *	(% of related expenditure)	(% of related expenditure)	(% of related expenditure)	(% of related expenditure)
<b>Official error (figure 2)</b>		700 (0.4)	500 (0.3)	700 (0.4)	500 (0.3)
<b>Claimant error (figure 3)</b>		1,500 (0.9)	900 (0.6)	1,600 (0.9)	900 (0.6)
<b>Fraud (figure 4)</b>		1,100 (0.7)	- -	1,200 (0.7)	- -
<b>Total</b>	<b>163,900</b>	<b>3,300 (2.0)</b>	<b>1,400 (0.9)</b>	<b>3,500 (2.1)</b>	<b>1,400 (0.9)</b>

NOTES

Figure Source: Department for Work and Pensions Accounts, Fraud and Error in the Benefit System: Preliminary 2013-14 Estimates (for the 2013-14 estimates), Fraud and Error in the Benefit System: Preliminary 2012-13 Estimates (for the 2012-13 estimates).

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

16. 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.

17. Overall, the level of fraud and error within benefits directly administered by the Department has fallen in 2013-14. However, fraud and error within Housing Benefit (which is administered on the Department's behalf by local authorities) has increased. I comment specifically on Housing Benefit in paragraphs 35 to 45.

## Official error

18. The Department's 2013-14 estimate of official error (defined in paragraph 14 above) is broken down in Figure 2 below.



Figure 2

Estimated official error

Benefits	2013-14			2012-13	
	Total	Official error	Official error	Official error	Official error
	expenditure	overpayments	underpayments	overpayments	underpayments
	£ million *	£ million *	£ million *	£ million *	£ million *
		(% of related expenditure)	(% of related expenditure)	(% of related expenditure)	(% of related expenditure)
<b>Benefits administered directly by the Department</b>	140,000	600 (0.4)	400 (0.3)	600 (0.4)	400 (0.3)
<b>Housing related benefits administered by Local Authorities**</b>	23,900	100 (0.6)	100 (0.3)	200 (0.6)	100 (0.3)
<b>All DWP benefits</b>	163,900	700 (0.4)	500 (0.3)	700 (0.4)	500 (0.3)

NOTES

Figure Source: Department for Work and Pensions Accounts, Fraud and Error in the Benefit System: Preliminary 2013-14 Estimates (for the 2013-14 estimates), Fraud and Error in the Benefit System: Preliminary 2012-13 Estimates (for the 2012-13 estimates).

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

\*\* 2012-13 estimates include fraud and error figures for Housing Benefit and Council Tax Benefit. Council Tax Benefit was replaced by Council Tax Reduction on 1 April 2013 and the Department no longer has any role in its administration. Therefore, the 2013-14 figures for housing related benefits administered by Local Authorities exclude Council Tax Benefit and the associated fraud and error.

19. 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 (2012-13 – overpayments 0.1%) and 0.1% in underpayments (2012-13 – underpayments 0.2%). Whereas Pension Credit, which is more complex to administer due to its means-tested nature, has an official error rate of 1.8% in overpayments and 1.2% in underpayments (2012-13 – overpayments 1.7%; underpayments 0.9%).

## Claimant error

20. The Department's estimate of claimant error, as defined in paragraph 14, is shown in Figure 3 below.

Figure 3

### Estimated claimant error

Benefits	2013-14	2013-14	2013-14	2012-13	2012-13
	Total	Claimant	Claimant error	Claimant	Claimant error
	expenditure	error	underpayments	error	underpayments
	£ million *	overpayments £ million * (% of related expenditure)	£ million * (% of related expenditure)	overpayments £ million * (% of related expenditure)	£ million * (% of related expenditure)
<b>Benefits administered directly by the Department</b>	140,000	600 (0.4)	600 (0.4)	600 (0.5)	700 (0.5)
<b>Housing related benefits administered by Local Authorities**</b>	23,900	900 (3.8)	300 (1.2)	900 (3.3)	300 (1.0)
<b>All DWP benefits</b>	163,900	1,500 (0.9)	900 (0.6)	1,600 (0.9)	900 (0.6)

#### NOTES

Figure Source: Department for Work and Pensions Accounts, Fraud and Error in the Benefit System: Preliminary 2013-14 Estimates (for the 2013-14 estimates), Fraud and Error in the Benefit System: Preliminary 2012-13 Estimates (for the 2012-13 estimates).

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

\*\* 2012-13 estimates include the fraud and error figures for Housing Benefit and Council Tax Benefit. Council Tax Benefit was replaced by Council Tax Reduction on 1 April 2013 and the Department no longer has any role in its administration. Therefore, the 2013-14 figures for housing related benefits administered by Local Authorities exclude Council Tax Benefit and the associated fraud and error.

21. 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, Jobseeker's Allowance 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.

22. 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.

## Fraud

23. The Department's estimate of fraud, as defined in paragraph 14, is shown in Figure 4 below.

Figure 4

### Estimated fraud

Benefits	2013-14	2013-14	2012-13
	Total expenditure	Fraud overpayments	Fraud overpayments
	£ million *	£ million *	£ million *
		(% of related expenditure)	(% of related expenditure)
<b>Benefits administered directly by the Department</b>	140,000	800 (0.5)	800 (0.6)
<b>Housing related benefits administered by Local Authorities**</b>	23,900	300 (1.4)	400 (1.4)
<b>All DWP benefits</b>	163,900	1,100 (0.7)	1,200 (0.7)

#### NOTES

Figure Source: Department for Work and Pensions Accounts, Fraud and Error in the Benefit System: Preliminary 2013-14 Estimates (for the 2013-14 estimates), Fraud and Error in the Benefit System: Preliminary 2012-13 Estimates (for the 2012-13 estimates).

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

\*\* 2012-13 estimates include the fraud and error figures for Housing Benefit and Council Tax Benefit. Council Tax Benefit was replaced by Council Tax Reduction on 1 April 2013 and the Department no longer has any role in its administration. Therefore, the 2013-14 figures for housing related benefits administered by Local Authorities exclude Council Tax Benefit and the associated fraud and error.

24. Of the benefits administered directly by the Department, it is again the means-tested benefits that 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.

25. 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<sup>2</sup>. 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.

## Departmental Work to Reduce Fraud and Error

26. The Department recognises that the level of fraud and error in benefit expenditure is too high and has, over the years, made many efforts to reduce it. This has included introducing data-matching systems, launching advertising campaigns targeting actual and potential fraudsters and applying sanctions and prosecutions. The 2013-14 preliminary estimates suggest that these efforts have had some success, as the level of fraud and error in benefits directly administered by the Department has reduced since 2012-13. This improvement has, however, been negated by the increase in fraud and error within Housing Benefit.
27. 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 to be undertaken by the Department.
28. 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 set

---

<sup>2</sup> 'Tackling fraud and error in the benefit and tax credits system', October 2010.

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 agreed to aim for such savings to reduce the estimated level of overpayments to 1.7 per cent by April 2015.

29. The estimated overpayments of benefit expenditure due to fraud and error in 2013-14 was 2.0 per cent of expenditure, which shows no significant change from the levels of fraud and error reported in 2012-13. Furthermore, the estimated percentage overpaid has remained between 2.0 and 2.2 per cent since 2005-06. The Work and Pensions Committee stated in May 2014 that the Department will only meet the 1.7 per cent target 'if it employs innovative approaches which are aligned with the known risk factors associated with each benefit'. In my view, with less than a year left, achieving this 1.7 per cent target by April 2015 remains a very substantial challenge and is unlikely to be achieved.
30. The Department is aware of the challenges that it faces in order to reduce losses due to fraud and error. It recognises that it needs a more systematic approach to determine areas to focus on delivering fraud and error reductions in individual benefit streams. As noted above, my staff have worked with the Department to develop our mutual insight and understanding of where losses arise in Pension Credit. The challenge for the Department is to now utilise this information to develop a strategy that sets out the interventions that will generate sustained reductions in such losses. As planned interventions are rolled out, the Department must collate robust information and undertake rigorous measurement so that each intervention can be assessed to determine if it works and is actually delivering the planned savings and outcomes.
31. During 2013-14, the Department has continued to undertake work to reduce the level of overpayments. Most of this effort has been work carried out through the Department's Fraud and Error Prevention Centres to review and update the data held by the Department on Pension Credit, Disability Living Allowance and a range of Working Age benefits. The Centres utilise data scans and matching rules to identify cases with potential fraud and error for investigation. The Centres also communicate directly with claimants to gather

up to date information in an attempt to verify that benefit payments are being made correctly.

32. For the future, the Department plans to increase the use of data matching against Real Time Information (RTI) income and earnings data held by HMRC. The Department has already started using RTI data to provide information on earnings as part of the calculation of claimants' Universal Credit entitlement. From July 2014 to March 2015, the Department also plans to carry out a bulk exercise to match RTI data against existing legacy benefits for some eight million records. Once this exercise is complete, the Department will evaluate the results before determining whether it should extend the use of RTI data.
33. The Department also recognises that it should be within its capabilities to reduce the levels of overpayments and underpayments due to Official Error. As a result it has set a target to reduce Official Error by £200 million by March 2015. Much of this reduction is expected to come through improvements in the existing benefit delivery service, but the Department now needs to devise a robust methodology and progress tracking approach for meeting this target.
34. In my report last year, I noted the Department planned to establish an Integrated Risk and Intelligence Service (IRIS) to deliver a new fraud and error prevention capability. This was planned to better use data and analytics to risk assess benefit claims and support targeted interventions. In Note 28 to the accounts, the Department has confirmed that, whilst it no longer intends to implement IRIS as originally conceived, it will break IRIS into individual components (Session Confidence, Information Confidence and Security Decision Service) that present less delivery risk and provide more opportunity to test and learn. The Department is also implementing an Analytical Intelligence Hub, which it intends to use to mitigate any fraud and error risk arising from the expansion of Universal Credit in Autumn 2014.

## Housing Benefit and Council Tax Benefit

35. Council Tax Benefit was replaced by Council Tax Reduction on 1 April 2013. Council Tax Reduction is administered by local authorities and based on local decision making frameworks. The Department no longer has any role in its administration, and therefore expenditure on Council Tax Reduction, and the associated fraud and error, is not included within the Department's 2013-14

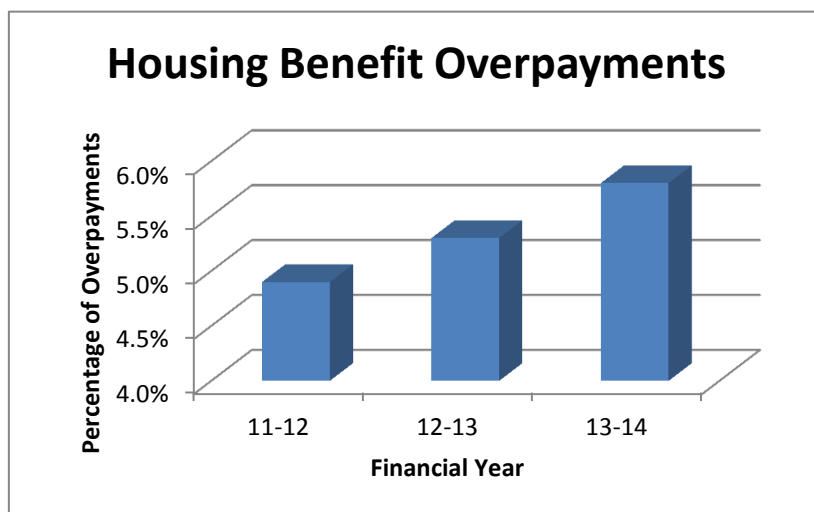


estimates. However, in figures 1-4 above, the 2012-13 comparative figures do include Council Tax Benefit expenditure and error. As such, it is difficult to make direct comparisons of the level of fraud and error in Housing Benefit between the two years.

36. The Department's preliminary estimate is that total overpayments due to fraud and error across all benefits in 2013-14 is 2.0 per cent of the total forecast benefit expenditure of £163.9 billion. The decrease from 2.1 per cent, when compared with the 2012-13 and 2011-12 results, is principally due to the removal of Council Tax Benefit from the 2013-14 estimates.

37. Despite the removal of Council Tax Benefit from the 2013-14 estimates, the level of overpayments due to fraud and error in Housing Benefit has continued to increase, as shown in Figure 5 below. The estimated level of overpayments in Housing Benefit has risen to 5.8 per cent in 2013-14 (5.3 per cent in 2012-13). This contrasts with the other continuously measured benefits, where estimated overpayments due to fraud and error have fallen in the year.

Figure 5



#### NOTES

Figure Source: Department for Work and Pensions Accounts, Fraud and Error in the Benefit System: Preliminary 2013-14 Estimates (for the 2013-14 estimates), Fraud and Error in the Benefit System: Preliminary 2012-13 Estimates (for the 2012-13 estimates), Department for Work and Pensions Annual Report and Accounts 2011-12 (for the 2011-12 estimates).

38. Housing Benefit is administered by the claimant's 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 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. Therefore, fraud and error in one claim can be passported into the local authority administered benefit.
39. 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 paid 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 Housing Benefit.
40. Housing Benefit is also means-tested and therefore subject to similar limitations around evidence that can be gathered as for 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. However, because Housing Benefit has a high caseload of in-work claimants, it is particularly susceptible to fraud and error arising from incorrect earnings.
41. Common errors also 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.
42. Timely, efficient and accurate data sharing became even more important with the implementation of changes to Housing Benefit from April 2013, which included the removal of the spare room subsidy for working-age tenants living in social housing and the phased implementation of a limit on the total amount of benefit that most working age people can receive (the benefit cap). These changes imposed additional entitlement to benefit criteria based on housing occupancy and the overall level of benefits received. The Department plans further changes to Housing Benefit in the future, as payments to working-age

claimants are progressively replaced by Universal Credit. It also plans to replace Housing Benefit payments to pensioner claimants with a housing credit element of Pension Credit.

43. The Department recognises the problem of increasing levels of fraud and error in Housing Benefit. It has set up a Working Group to develop and implement a strategy to reduce Housing Benefit fraud and error, and intends to focus both on improving existing data sharing and exploring new methods of data sharing, possibly including RTI data.
44. This will build on previous initiatives by the Department to enhance the sharing of data. It started supplying daily updates of changes in benefit entitlements to local authorities in February 2012 through the Automated Transfers to Local Authority Systems (ATLAS). Whilst ATLAS provides a welcome opportunity for data sharing, the Work and Pensions Select Committee has recently recommended that the Department and local authorities jointly review ATLAS so that local authorities can access the information they need to verify Housing Benefit claims more easily.<sup>3</sup>
45. Due to the high, and increasing, level of overpayments within Housing Benefit, I have decided to undertake a more detailed review of the causes of fraud and error in this benefit. I intend to report on this in Autumn 2014.

## Welfare Reform

46. Two of the main elements of the Welfare Reform Act 2012 were the introduction of Universal Credit and the Personal Independence Payment. As noted in paragraph 28 above, the Department initially anticipated reducing fraud and error by £200 million per year by introducing Universal Credit.
47. The Department began a Universal Credit Pathfinder on 29 April 2013, where it trialled Universal Credit for a limited number of customers. It originally planned a progressive roll out of Universal Credit from October 2013, but while the Pathfinder has remained and increased in scope and scale, the national roll out has not yet commenced. The Department plans to further extend the scope of the Pathfinder by extending Universal Credit to couples and families later in 2014. In 2013-14, it spent £5.9 million in Universal Credit

---

<sup>3</sup> Work and Pensions Committee Report *Fraud and error in the benefits system* HC 1082 2013-14 para 37

benefit payments.

48. 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.
49. In my report, '*Universal Credit: Early Progress*' (HC 621 2013-14) published in September 2013, I noted that the delay in national roll-out will reduce the value of the financial benefits initially assumed by the Department. Included within these benefits are the savings that would arise from a reduction in fraud and error.
50. The Department started a phased introduction of Personal Independence Payment (PIP) on 8 April 2013, with the Department processing new claims from the North West and North East of England. In 2013-14, it spent £165 million in PIP benefit payments. As with Universal Credit, one of the aims of PIP is to reduce levels of fraud and error.
51. As set out in my February 2014 report '*Personal Independence Payment: Early Progress*' (HC 1070 2013-14), in mid-2013 backlogs developed and the Department has made fewer claim decisions than it expected and has postponed the reassessment of most existing Disability Living Allowance claims. The lower number of claim decisions compared to those expected will, in the short term, reduce the value of any savings that will arise from a reduction in fraud and error.

## Conclusion

52. The estimated value of fraud and error overpayments in benefit expenditure in 2013-14 is £3.3 billion, or 2.0 per cent of expenditure. This is a reduction in the level of fraud and error from 2012-13 (2012-13 – £3.5 billion and 2.1 per cent respectively), but the decrease is primarily due to the removal of Council Tax Benefit from the Department's expenditure and from the fraud and error estimates.
53. Over the period in which fraud and error have been measured by the Department, fraud and error rates have consistently remained high. 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.

54. In order to develop effective ways of reducing fraud and error in benefits expenditure, the Department needs to properly understand how and why overpayments arise in individual benefits. This requires the collection and analysis of quantitative and qualitative data on fraud and error to identify key risk areas, better exploitation of this data to direct operational activity and ensuring that operational staff are properly focussed on reducing fraud and error. We are working with the Department to develop a methodology that supports the identification of key risk areas within benefit streams<sup>4</sup>.
55. 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.
56. We note the work the Department is doing to reduce fraud and error, which it sets out in more detail within the Annual Report and in Note 28 to the accounts. In its implementation of changes to the benefits system, we recognise the Department is also, in part, attempting to drive down incorrect payments. However, 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.

---

<sup>4</sup> As set out at paragraphs 11-12.

## Universal Credit assets

57. 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, but in November 2013 the Ministerial Oversight Group for Universal Credit approved a new approach that included both the development of a new digital end-state solution for delivering Universal Credit, as well as further investment in the existing IT functionality to support an expansion to accept Universal Credit claims from couples and families.
58. The Department for Work and Pensions (the Department) deferred submission of its 2012-13 Annual Report and Accounts for audit until December 2013, in order to fully incorporate the decisions of the Ministerial Oversight Group in those accounts. In those accounts, the Department impaired £40.1 million of IT assets that it had purchased or developed for Universal Credit, but which had no use in either the existing or end-state solutions. Furthermore, the Department also recognised that some £91.0 million of Universal Credit IT assets would only have use as part of the development of the existing IT functionality, and would therefore be amortised over 5 years, and not 15 years as originally intended.
59. In Note 12 to the Accounts, the Department recognises £609 million of intangible assets as at 31 March 2014. As set out in Note 12d, £131.3 million of this amount (2012-13: £151.9 million) relates to Universal Credit IT assets. I have reviewed these balances and am satisfied that they are reasonable. I have also considered the accounting treatment adopted by the Department in respect of these assets, which I consider to be appropriate.
60. The overall cost of developing the assets to support the Universal Credit programme continues to remain subject to some uncertainty. HM Treasury has continued to approve funding for the development of the existing IT functionality so that it can support Universal Credit claims from couples and families. Further HM Treasury approvals are required during 2014.

61. In my report on the Department's 2012-13 Annual Report and Accounts, I reported on the considerable weaknesses in the Department's financial controls over the Universal Credit programme. In particular, both the NAO and the Public Accounts Committee expressed concerns over the weaknesses in financial governance, reporting and controls within the programme, and the limited Departmental review and challenge over the quality, efficiency and value of services being delivered by suppliers.
62. The Department accepted these findings and all the recommendations made by the Public Accounts Committee. It has taken steps to strengthen financial controls and supplier management, through the development and implementation of revised financial procedures, financial assurance arrangements and financial reporting. The Department is implementing these improved financial controls, where appropriate, across the Department's portfolio of major programmes. It has also made progress in reconstituting the programme Board and defining the capacity and capability of the associated governance arrangements. The Department acknowledges that a number of the actions designed to improve programme management, both through the existing IT functionality and the development of the digital end-state solution, and to support the revised and reconstituted governance arrangements, are on-going and their operational effectiveness is still to be proven.
63. It is clear that the Department still has much to do to address all the concerns raised and to ensure it delivers value for money in its implementation of the Universal Credit programme. The Department is continuing to spend significant sums in developing the programme, as it both maintains and enhances the existing IT functionality, while simultaneously designing a new digital end-state to replace it. The Department will need to exert rigorous control over this expenditure, and ensure it uses the available funding effectively and does not need to impair further assets.
64. In my report '*Universal Credit: early progress*' (HC 621) published in September 2013 and subsequently in my report on the Department's 2012-13 Annual Report and Accounts, I concluded that at that early stage of the Universal Credit programme, the Department had not achieved value for money. I will be looking at this issue again as part of a follow up report on Universal Credit, which I intend to publish in late 2014.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**

**23 June 2014**

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