



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Work & Pensions

Housing Benefit fraud and error



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Report by the Comptroller and Auditor General

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Key facts

£23.9bn

total Housing Benefit payments, 2013-14

£1.4bn

the Department's preliminary central estimate of Housing Benefit overpayments in 2013-14

5.8%

estimated overpayments as a proportion of Housing Benefit spending, 2013-14 (range: 4.7% to 7.0%)

3.5%	estimate of net overpayments as local authorities recovered approximately 40% of overpayments by claimants in 2013-14
£900 million	overpayments due to claimant error, 3.8% of benefit spending (range: between 2.8% and 4.6%). The central estimate was 2.8% in 2010-11 ¹
£340 million	overpayments due to fraud, 1.4% of benefit spending (range: between 0.8% and 2.1%), the same level as 2010-11
£150 million	overpayments due to official error, 0.6% of benefit spending (range: between 0.3% and 1.1%). The central estimate was 0.4% in 2010-11
2.8%	level of overpayment identified in local authority provisional subsidy returns in 2013-14 (as a proportion of Housing Benefit spending)
£466 million	funding to local authorities for administering Housing Benefit in 2013-14; around half of total administrative costs
1.7%	the Department's target to reduce fraud and error overpayments across benefits by March 2015. Preliminary estimates for 2013-14 showed total overpayments were £3.3 billion, 2.0% of benefit spending (range: between 1.7% and 2.4%)

¹ The breakdown of overpayments is taken from published statistics: the Department for Work & Pensions, *Fraud and Error in the Benefit System: Preliminary 2013/14 Estimates (Great Britain)*, May 2014.

Summary

1 Housing Benefit is a means-tested benefit to help people on low incomes pay rent. Eligibility depends on several factors including: income and capital; household size, ages and circumstances; and rent levels. Five million households claim Housing Benefit, receiving an average weekly payment of £90. The Department for Work & Pensions (the Department) spent £23.9 billion on Housing Benefit in 2013-14, 15% of its total benefit spending.

2 Fraud and error arises in different ways. Official error occurs when benefit is paid incorrectly due to inaction, delay or mistaken assessment by government officials. Claimant error arises when the claimant has provided inaccurate or incomplete information, or failed to report a change in their circumstances, but there is no fraudulent intent. Fraud occurs when claimants deliberately misrepresent their circumstances to maximise their benefit entitlement. The Department's central estimate is that £1.4 billion was overpaid due to fraud and error in 2013-14, 5.8% of Housing Benefit spending. Housing Benefit accounts for 42% of all overpayments across the Department's benefit spending.

3 The Department and local authorities manage Housing Benefit. The Department sets policy, entitlement rules and shares data and guidance with local authorities. Local authorities have a statutory duty to undertake the day-to-day administration of Housing Benefit and pay claimants. Local authorities reclaim payments from the Department (referred to as the 'subsidy'). The Department also provides administrative funding each year towards the cost of administering claims. In 2013-14, it paid local authorities £466 million.

4 One of the Department's priorities is to improve public services by reducing fraud and error. Its preliminary estimate of fraud and error overpayments for all benefits in 2013-14 was £3.3 billion, or 2.0% of total benefit expenditure. The Department has a target to reduce total fraud and error overpayments to 1.7% of benefit expenditure by March 2015. In his report on the Department's accounts for 2013-14, the Comptroller and Auditor General noted the Department was unlikely to achieve its 1.7% target, but had made progress in reducing overpayments in the benefits it administers directly; had worked with the National Audit Office to assess the maturity of its fraud and error response in some benefits; and recognised the need to develop new strategies for tackling fraud and error.

5 Several recent reforms have affected Housing Benefit administration. The Department has changed eligibility criteria, limited deductions and set caps on award levels. It is also introducing other changes which affect Housing Benefit, such as centralising local fraud investigators into a single fraud investigation service. Housing Benefit will eventually cease to be paid for working-age claimants as support for housing costs will be incorporated into a single household payment under Universal Credit. The Department plans to move the majority of the 3.7 million working-age claimants to Universal Credit by the end of 2017. Local authorities will continue to administer Housing Benefit claims for 1.3 million pension-age claimants until at least 2017-18.

Scope of the report

6 The Comptroller and Auditor General has qualified the Department's accounts every year since 1988-89 because of the level of fraud and error in benefit expenditure. We and the Committee of Public Accounts have repeatedly called for improvements to how the Department manages fraud and error.

7 Fraud and error estimates are affected by factors such as the design of benefit programmes and economic and demographic trends. The test of the Department's response is more than just progress in reducing fraud and error rates. We also consider whether the Department's overall approach is coherent and how it allocates resources to appropriate activities to tackle fraud and error.

8 In the light of recent and proposed changes to Housing Benefit administration, and the need for the Department to meet targets for fraud and error overpayments, we assess whether its response to fraud and error in Housing Benefit represents value for money. We consider:

- recent trends in Housing Benefit fraud and error (Part One);
- the Department's oversight and management of fraud and error (Part Two); and
- the effectiveness of interventions to tackle fraud and error (Part Three).

Key findings

Trends in fraud and error

9 Housing Benefit is the largest source of overpayments due to fraud and error in the Department's benefits. The Department estimated that £1.4 billion was overpaid in 2013-14, 42% of total overpayments of £3.3 billion across all welfare benefits. At an estimated 5.8% of expenditure, Housing Benefit has the highest rate of overpayment among the Department's benefits. Claimant error (£900 million) was the cause of two-thirds of overpayments. Local authorities recover about 40% of Housing Benefit overpayments, compared with an average of around 20% for other benefits. The net overpayment after recovery was around 3.5% in 2013-14 (paragraphs 1.6 to 1.8).

10 The rate of fraud in Housing Benefit has been stable since 2007-08, at 1.4% of benefit spending in 2013-14. This is the lowest estimated rate of fraud across the Department's means-tested benefits, which ranged from 1.9% to 2.6% in 2013-14, although the distinction between fraud and claimant error is not always a clear one. The Department is seeking to reduce the level of overpayments due to fraud (paragraph 1.11).

11 The rate of error in Housing Benefit, by both officials and claimants, has been rising, to 4.4% in 2013-14. The main source of claimant error comes from unreported fluctuations in earnings. As a result, the Department's central estimate of total Housing Benefit overpayments increased from 4.6% to 5.8% between 2010-11 and 2013-14.^{2,3} This increase contrasts with a decrease in the levels of fraud and error within the Department's directly administered benefits. Changes in earnings are the main source of claimant error. The Department estimates that claims from people in-work are 5 times more likely to include overpayments than claims from other working age people. The number of in-work claimants and the rate of overpayments in this group have both increased (paragraphs 1.9 to 1.12).

12 The Department is making major changes to Housing Benefit administration whose effect and timing remain uncertain. The Department expects Universal Credit to reduce overpayments. Following its reset of Universal Credit in 2013, the Department has changed its approach to rolling out the programme, delaying planned reductions in overpayments of £200 million in 2014-15. The Department is also still considering how to reform the administration of Housing Benefit for claimants over pension age (paragraphs 1.15 to 1.17).

² The increase between 2010-11 and 2013-14 for total overpayments is not significant at either the 95% or 90% level. Appendix Three explains the significance testing, and why we believe central estimates of the monetary value of fraud and error continue to be important indicators of performance.

³ For the purposes of this report we refer primarily to overpayments. In most cases the issues we consider also apply to underpayments.

Oversight and management of fraud and error

13 The Department is ultimately responsible for Housing Benefit fraud and error, and bears most of the risk if overpayments are not prevented or identified.

Local authorities have a statutory duty to deliver Housing Benefit, for which the rules of entitlement are set out in law, supported by guidance from the Department. But the financial risks largely remain with the Department, which reimburses local authorities for accurate payments to claimants and contributes to their administrative costs. It is inherently complex for the Department to work with 380 local authorities, especially as local authorities need to balance the administration of the scheme against the delivery of a wide range of public services. In our view, the Department has not established sufficiently clear responsibilities to tackle fraud and error in partnership with local authorities (paragraphs 2.2 to 2.5).

14 The Department now relies mainly on incentives in the subsidy regime to encourage local authorities to prevent and identify fraud and claimant error, but these are weak. The subsidy regime aims to reimburse local authorities and encourage effective administration of Housing Benefit. We found that it encourages local authorities to process claims accurately and recover overpayments that are identified. It is not designed specifically to target fraud and claimant error and does not create strong incentives to detect overpayments after the claim has been awarded, which account for 90% of all Housing Benefit overpayments. Provisional subsidy returns show that local authorities reported overpayments of 2.8% of the value of Housing Benefit payments compared to the Department's central estimate of 5.8% in 2013-14 (paragraphs 2.11 to 2.16).

15 The certification process is designed to provide assurance on local authority subsidy claims and so gives the Department limited insight on their overall performance in tackling fraud and claimant error. The certification process, as required by the subsidy regime, encourages local authorities to improve the accuracy of processing and reduce official error, which at 0.6% of expenditure, is relatively low compared to other benefits. In the Department's view, the certification process works well in providing assurance on Housing Benefit spending and the subsidy that local authorities claim. As the subsidy regime sets few conditions on how local authorities manage their caseloads, the certification process does not therefore offer the Department insight on local authorities' targeted work to reduce fraud and claimant error. Local authorities consider the subsidy regime, which includes the certification process, to be bureaucratic and disproportionate (paragraphs 2.17 to 2.19).

16 The Department has reduced its performance management of local authorities, reflecting a wider government drive to reduce burdens on local authorities. The Department no longer sets performance targets or minimum standards for local authorities to tackle Housing Benefit fraud and error. Where the Department has a continuing role in managing performance, it has focused primarily on the speed of processing claims and taken a lighter touch approach on fraud and error. Its approach has been to work with local authorities rather than relying on formal inspections. For example, in 2011, it took on the inspection role of Local Authority Housing Benefit Services from the Audit Commission. It has only felt it necessary to escalate the issues to formal inspection in one case since 2011-12 (paragraphs 2.20 to 2.26).

17 The Department has increased its focus on tackling Housing Benefit fraud and error. In mid 2013, in light of increasing central estimates of overpayments, the Department commissioned a review of Housing Benefit fraud and error. It continued to discuss proposals over the next year, including discussions with the Cabinet Office and HM Treasury as part of the Fraud Error and Debt Taskforce. In April 2014 the Taskforce requested the Department's plan to reduce Housing Benefit losses in 2014-15 and beyond. In July 2014, the Department responded to these concerns by setting out short-term plans to reduce fraud and error by the end of 2014-15. This included plans to incentivise and increase capacity in local authorities. The new initiatives seek to strengthen the Department's existing performance management framework and focus on weaknesses in local authority incentives. However, the impact and timing of these changes on levels of fraud and error remains uncertain (paragraphs 2.6 to 2.10 and 2.27 to 2.28).

Interventions to tackle fraud and error

18 The Department has reduced its funding to local authorities. In the context of overall reductions in Departmental spending, the funding to support local authorities' administration of Housing Benefit-related claims has fallen by 17% between 2010-11 and 2013-14. At the same time the number of people claiming Housing Benefit increased by 5%. Local authorities have maintained performance regarding processing times. However, in 2013, local authorities employed 19% fewer fraud investigators and referred 25% fewer cases for fraud investigation when compared to 2009. In interviews with local authorities, we found that they had limited funding to undertake interventions beyond core requirements for processing claims (paragraphs 3.2 to 3.5 and 3.8 to 3.9).

19 The Department has spent less money tackling fraud and error in Housing Benefit than other benefits. Over the current spending review period to March 2015, the Department planned to invest £308 million of spend-to-save funding in new initiatives to tackle fraud and error across all benefits. The Department committed £23 million directly to Housing Benefit projects (8%). It has also implemented other initiatives cutting across multiple benefits and estimates it will spend £20 million in 2014-15, including salary costs, introducing the single fraud investigation service (paragraphs 3.6 to 3.7).

20 The Department provides valuable initiatives to share and match data, although these have fallen short of expectations. Two main services are: the ATLAS project sharing data on changes of claimant circumstances and the Housing Benefit Matching Service identifying high risk claims. Both services draw on the Department's data to help target local authorities' work on in-payment claims, which is the source of 95% of overpayments. Both have delivered savings but there is scope to improve their effectiveness. The ATLAS project has not been as easy to automate as originally anticipated and is forecast to deliver less than half the expected returns. In the Housing Benefit Matching Service, the data matching rules should be more closely aligned with major areas of loss (paragraphs 3.16 to 3.18).

21 The Department will benefit from introducing real-time information about claimants' income. In 2013-14, an estimated £637 million of fraud and error was caused by claimants mis-declaring or not promptly reporting changes to their income, an increase of 32% since 2011-12. The Department is seeking to exploit the introduction of real-time information to develop a cross-benefit response to tackling this risk. In summer 2014, it implemented a project to check local authorities' information on claimants' earnings, forecasting that this would identify 223,000 incorrect Housing Benefit claims and reduce fraud and error by £30 million (5% of income overpayments). Capacity constraints in local authorities to work these cases have since halved the expected returns this year. Real-time information should help to reduce earnings-related overpayments for claimants in employment although, as the Department recognises, the proportion of claimants covered and the potential to significantly reduce overpayments is not yet known (paragraphs 3.10 and 3.19).

22 The Department could help local authorities to better target risks. It has provided risk profiling to help local authorities detect overpayments but, in line with wider government policy, there is no requirement for local authorities to use this data. The Department has a useful breakdown of the causes of fraud and error which it could use to help local authorities focus interventions on major areas of loss. It could, for example, extend its analysis of how effective certain interventions are in tackling different risk types (paragraphs 3.20 to 3.21).

Conclusion on value for money

23 Housing Benefit is a difficult benefit to administer and, with unclear responsibilities and limited investment, it is unsurprising that estimates of total overpayments have increased. The Department ultimately bears the financial costs of Housing Benefit and should have increased its focus on Housing Benefit fraud and error sooner, relying too heavily on incentives in the subsidy process and the valuable, but limited, data sharing and matching it provides. As a result, the management of Housing Benefit fraud and error has not delivered value for money over the last few years.

24 The Department has now recognised the need to do more and has been developing a new strategy to tackle fraud and error in Housing Benefit. New initiatives are not fully developed and it is too early to assess their impact. As it finalises its plans, the Department will need to show it has addressed the problems with local authority incentives, while also targeting interventions more on major areas of loss and exploiting data to identify riskier claims and strengthen decision-making.

Recommendations

25 As the Department develops its strategy to reduce fraud and error it must consider its oversight and management of Housing Benefit, both in the longer term and in advance of rolling out Universal Credit. It should take this opportunity to:

- a Set out clearer responsibilities for reducing fraud and error.** It should identify gaps or uncertainty in responsibilities for managing Housing Benefit fraud and error and address them, through existing or different mechanisms.
- b Improve incentives for local authorities to prevent and identify fraud and error, and align these incentives with the Department's own aims.** The Department should conduct an end-to-end review of the incentives system, subsidy reimbursement, rules and processes for Housing Benefit. It should involve, as necessary, other government departments and the Fraud Error and Debt Taskforce in the design of new initiatives.
- c Improve the quality of information about fraud and error in oversight and assurance processes.** Given the increase in overpayments, it should revisit its analysis of options for providing better estimates at regional levels, focusing on high expenditure areas. It could use this information to work with targeted local authorities to strengthen prevention and detection initiatives.

26 The Department is introducing several initiatives to tackle fraud and error, working with the Fraud Error and Debt Taskforce and HM Treasury. To make interventions more effective, it should work with local authorities to:

- d Develop a plan that addresses major areas of risk.** The Department should review the end-to-end process for administering Housing Benefit, reviewing the different causes of fraud and error at each stage and considering the strength of controls. In doing so, it should:
 - extend its risk analysis to develop a more detailed understanding of the causes of losses. It should focus on the income risk and the impact of changing employment arrangements.
- e Align work by identifying and profiling risky cases.** The Department should:
 - review good practice in local risk-based verification and compare with its own risk assessments.
 - align risk rules with losses and causes of overpayments, increase volumes of referrals for most productive rules and trial new rules. For example rules on the age of claims; claims with no reported changes (eg in the last 6 months) and in-work claims with no reported changes.

f Exploit data and strengthen fraud and error controls. The Department should:

- evaluate the real-time information (RTI) bulk data match to explore the potential to run more frequent matches, including the constraints on local authorities in processing matches.
- continue to work with other government departments to make greater use of datasets to identify claimant error and fraudulent activity.