



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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**Department for Work & Pensions**

# Housing Benefit fraud and error

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National Audit Office

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Department for Work & Pensions

# Housing Benefit fraud and error

Report by the Comptroller and Auditor General

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National Audit Act 1983 for presentation to the House of  
Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB  
Comptroller and Auditor General  
National Audit Office

15 October 2014

This study examines the Department for Work & Pensions' response to Housing Benefit fraud and error and whether this was value for money.

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## Key facts

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**£23.9bn**

total Housing Benefit payments, 2013-14

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**£1.4bn**

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

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**5.8%**

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

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<b>3.5%</b>	estimate of net overpayments as local authorities recovered approximately 40% of overpayments by claimants in 2013-14
<b>£900 million</b>	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 <sup>1</sup>
<b>£340 million</b>	overpayments due to fraud, 1.4% of benefit spending (range: between 0.8% and 2.1%), the same level as 2010-11
<b>£150 million</b>	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
<b>2.8%</b>	level of overpayment identified in local authority provisional subsidy returns in 2013-14 (as a proportion of Housing Benefit spending)
<b>£466 million</b>	funding to local authorities for administering Housing Benefit in 2013-14; around half of total administrative costs
<b>1.7%</b>	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%)

<sup>1</sup> 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.<sup>2,3</sup> 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).

<sup>2</sup> 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.

<sup>3</sup> 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.

# Part One

## Trends in Housing Benefit fraud and error

**1.1** In this part we outline how the Department for Work & Pensions (the Department) and local authorities manage Housing Benefit. We compare levels of fraud and error with other benefits, describe trends and consider changes to how Housing Benefit is managed. For this report we refer to overpayments. The issues we consider usually also apply to underpayments.

**1.2** Both Housing Benefit and fraud and error are complicated areas on which we have reported several times. The Comptroller and Auditor General's report on the Department's accounts contains more explanation of recent levels of fraud and error across the Department.<sup>4</sup> Our previous value-for-money report explains Housing Benefit and related reforms in more detail.<sup>5</sup>

### Shared management of Housing Benefit

**1.3** Housing Benefit is a means-tested benefit to help people on low incomes pay their rent. Eligibility depends on criteria 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 spent £23.9 billion on Housing Benefit in 2013-14, 15% of its total benefit spending.

**1.4** The Department and local authorities have a range of responsibilities for managing Housing Benefit (**Figure 1** overleaf). 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.

**1.5** The Department reimburses local authorities for Housing Benefit payments through the 'subsidy' process. The level of subsidy is reduced when local authorities identify overpayments. In 2013-14, the Department reimbursed 98% of payments. It also provides separate administrative funding each year to contribute towards the cost of administering claims. In 2013-14, it paid £466 million to local authorities.

<sup>4</sup> *Department for Work & Pensions: 2013-14 Annual Report and Accounts.*

<sup>5</sup> Comptroller and Auditor General, *Managing the impact of Housing Benefit reform*, Session 2012-13, HC 681, National Audit Office, November 2012.

**Figure 1**  
Overview of administering Housing Benefit

The Department and local authorities have a range of responsibilities for managing Housing Benefit

Steps	Description	Timing
Notification of claims or changes	<b>Claimant</b> makes a new claim or notifies local authority of a change in circumstances	At any time
	<b>Department</b> notifies local authority of changes in circumstances in other benefits	Daily
	<b>Department's Housing Benefit Matching Service</b> identifies high risk claims	Monthly
Verification of claims	<b>Local authority</b> verifies entitlement based on claimant information	Always
	<b>Local authority</b> undertakes further verification based on risk or other intelligence	As needed
	<b>Department</b> sets guidance for individual councils	Occasional
	<b>Department</b> provides support to local authorities	At any time
Payment and recovery	<b>Local authority</b> pays claimant where claim is verified	On average 23 days for new claims up to benefit decision
	<b>Local authority</b> identifies and tries to recover overpayments which it keeps	At any time
Subsidy and certification regime	<b>Local authority</b> completes subsidy form with details of all claims, adjusted in respect of incorrect payments	Annually
	<b>Independent auditor</b> samples claims to check the subsidy form reflects prime documents held to support the claim for benefit, the award of benefit, and the subsidy claimed	Annually
	<b>Department</b> pays subsidy to local authority and recovers any incorrectly claimed subsidy	Annually but with instalments
	<b>Department</b> pays administration grant to local authority	Annually but with instalments

Source: National Audit Office summary of Departmental documents



## Relatively high levels of fraud and error

**1.6** Housing Benefit has higher rates of total overpayment due to fraud and error than other benefits. In 2013-14, the Department's central estimate of the monetary value of overpayments was 5.8% of Housing Benefit spending. Total overpayment rates for the Department's other benefits are lower (**Figure 2**). In 2013-14, the Department estimates that it overpaid £3.3 billion across all the benefits it manages. Housing Benefit accounted for 42% of total overpayments compared with 15% of total benefit spending and 30% of benefit spending, excluding the basic state pension.

**1.7** Fraud and error arises when incorrect information about claimant circumstances is used to make Housing Benefit awards. The Department estimates that £1.4 billion was overpaid due to fraud and error in 2013-14, of which £0.15 billion resulted from official error, £0.34 billion from fraud and £0.90 billion from claimant error.<sup>6,7</sup> Two-thirds of total overpayments were therefore due to claimant error, which is higher than other benefits.

### Figure 2

#### Housing Benefit overpayments compared with other benefits

##### Housing Benefit is the largest source of overpayments

Benefit	Expenditure (£bn)	Overpayments due to fraud and error (£bn)	Overpayments as a percentage of benefit expenditure (%)	Percentage of total overpayments across all benefits (£3.3bn) (%)
Housing Benefit	23.9	1.4	5.8	42
Pension Credit	7.2	0.4	5.7	12
Employment and Support Allowance	10.5	0.4	3.4	12
Income Support	3.7	0.1	4.0	4
Jobseeker's Allowance	4.4	0.2	3.7	6
Other benefits	31.1	0.7	2.3	21
<b>Total</b>	<b>80.8</b>	<b>3.2</b>	<b>3.9</b>	<b>97</b>
State Pension	83.1	0.1	0.1	3
<b>Total – all benefits</b>	<b>163.9</b>	<b>3.3</b>	<b>2.0</b>	<b>100</b>

##### Note

1 Other benefits include: Incapacity Benefit, Disability Living Allowance and other low expenditure benefits. The Department does not measure the level of fraud and error on a continuous basis for these benefits.

Source: Department for Work & Pensions, *Fraud and Error in the Benefit System: Preliminary 2013/14 Estimates (Great Britain)*, May 2014

6 Official error arises when a benefit is paid incorrectly due to inaction, delay or a mistaken assessment by the Department or local authority. Claimant error occurs when claimants make inadvertent mistakes with no fraudulent intent. Fraud arises when claimants deliberately seek to mislead the Department or local authorities to claim money to which they are not entitled.

7 The Department estimates that £0.4 billion was underpaid in 2013-14, of which £0.1 billion was official error and £0.3 billion claimant error.

**1.8** There are factors that mitigate the impact of Housing Benefit on overpayments:

- **Higher recoveries.** The Department estimates overpayments before recoveries. For many claims it is able to identify and then recover overpayments. Recovery varies by benefit. For Housing Benefit, the Department estimates that local authorities recovered around 40% of overpayments in 2013-14 so that the rate of overpayment net of recovery is around 3.5%.<sup>8</sup> Recovery rates appear to be lower for other benefits, with an average of around 20%.
- **Different measurement.** The Department measures fraud and error differently for Housing Benefit because of technical restrictions and the benefit's design. Sometimes these differences increase the measured level of overpayments compared with other benefits. For example, the Department records overpayments and underpayments on a single claim separately, while for other benefits it can 'net off' two errors on a single claim to calculate a net over or underpayment. The Department estimates that this increases the measured rate of overpayments by 0.4 percentage points. It is planning to change its measurement methodology in 2014-15.

### **Increased fraud and error**

**1.9** The Department's statistics show an increasing trend in total Housing Benefit fraud and error, with central estimates of overpayments increasing from 4.6% to 5.8% between 2010-11 and 2013-14 (**Figure 3**). We recognise that the central estimates are subject to confidence intervals. For example, the Department estimated that the level of fraud and error in 2013-14 was between 4.7% and 7%. Our presentation of fraud and error results is consistent with our practice for reports on the Department's accounts.

**1.10** The Department's estimates provide the best available indicator of the current levels of fraud and error. Appendix Three discusses the approach the Department adopts to measuring fraud and error and the significance of recent increases.<sup>9</sup> Our view is that the increase in the central estimate gives enough cause for concern about the level and change in fraud and error overpayments, and should be the basis for decision-making by the Department.

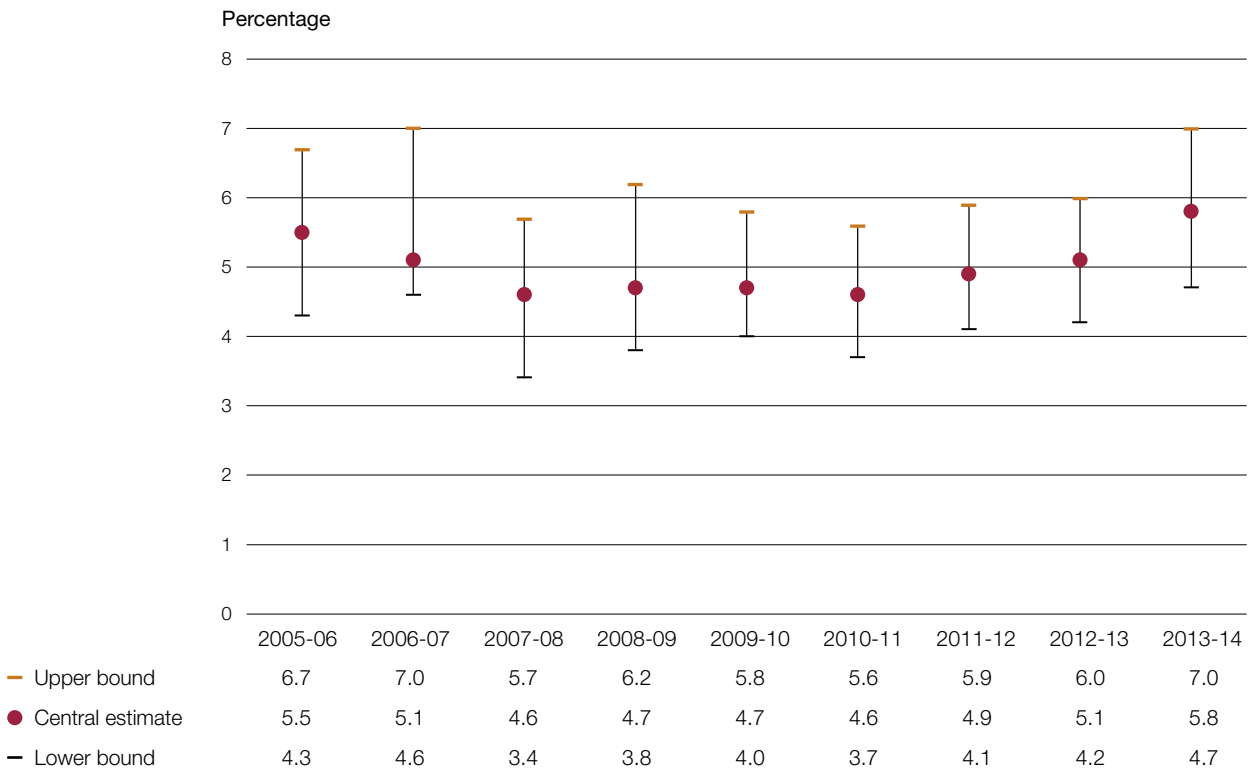
<sup>8</sup> Recovered amounts are taken from the Department's published statistics. The amounts in any one year relate to several years, so this is approximate.

<sup>9</sup> 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.

**Figure 3**

## Housing Benefit fraud and error overpayments since 2005-06

Overpayments – as a percentage of expenditure – have increased

**Note**

1 Upper and lower bounds are the limits within which the Department is 95% confident that the true values lies.

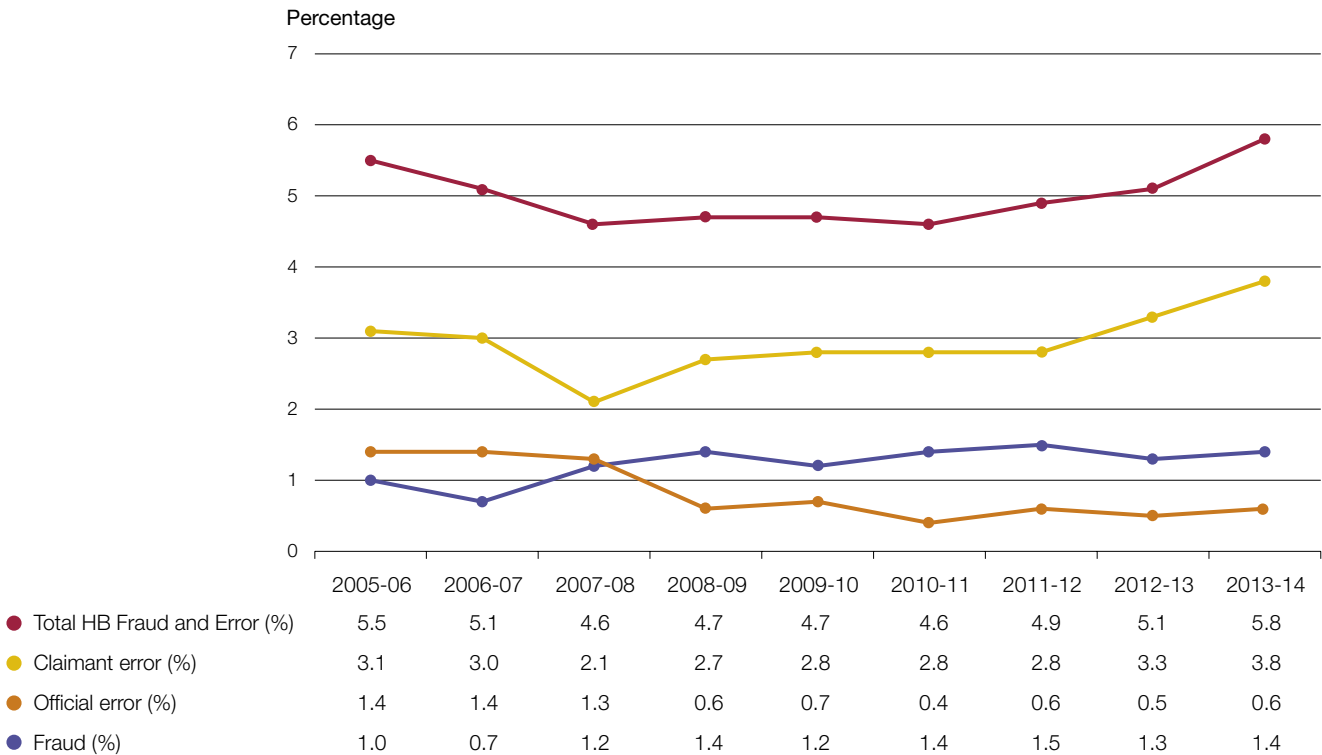
Sources: Department for Work & Pensions, *Fraud and Error in the Benefit System: April 2008 to March 2009 Revised Edition*, March 2011, Department for Work & Pensions, *Fraud and Error in the Benefit System: Preliminary 2013/14 Estimates (Great Britain)*, May 2014

**1.11** The reported increase in total overpayments is largely due to increases in claimant error, which rose from £590 million (2.8% in 2010-11) to £900 million (3.8% in 2013-14). Central estimates of official error increased from £90 million (0.4%) to £150 million (0.6%), while overpayments because of fraud (£340 million in 2013-14) have remained roughly constant (**Figure 4** overleaf).

**Figure 4**

Housing Benefit overpayments due to claimant error, fraud and official error since 2005-06

Overpayments caused by claimant error have increased since 2007-08

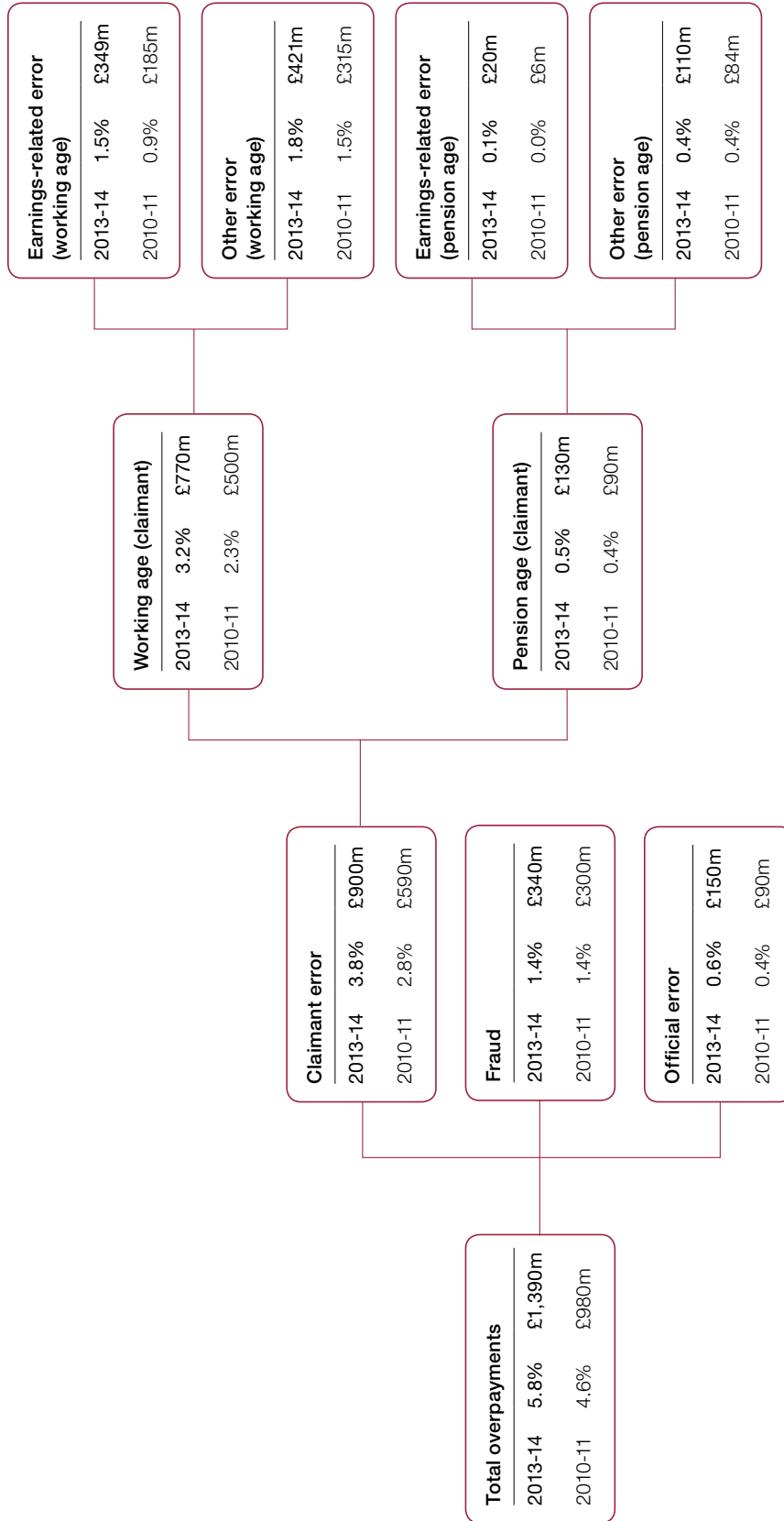


Source: Department for Work & Pensions, *Fraud and Error in the Benefit System: Preliminary 2013/14 Estimates (Great Britain)*, May 2014

**1.12** One of the main causes of the recent increase in total overpayments is working-age claimant error relating to earnings (**Figure 5**). In 2013-14, the Department estimated that these errors caused overpayments of £349 million, equivalent to 1.5% of total Housing Benefit spending. Standard working-age claims account for only £6.7 billion of spending, so one source of overpayment – earnings-related claimant error – accounts for 5.2% of spending in this group.<sup>10</sup> A possible contributing factor is changes caused by trends in the labour market and the increase in the number of ‘in-work’ claimants since 2008-09. Factors such as rising self-employment and the use of zero-hours contracts may have contributed to claimant error and made it more difficult for local authorities to administer claims.

<sup>10</sup> The Department distinguishes between ‘standard’ and ‘passport’ Housing Benefit claims. Passport claims are automatic entitlements based on claimants’ existing claims to other benefits such as Jobseeker’s Allowance. Standard claims are claims which do not passport from other benefits.

**Figure 5**  
Breakdown of overpayments by error type and claimant age  
Claimant error relating to earnings has contributed to increases in overpayments



**Notes**

- 1 Percentages show overpayments as a proportion of total Housing Benefit spending of £23.9 billion in 2013-14 and £21.4 billion in 2010-11.
- 2 Other error includes unearned income and capital, residency, household composition and other conditions of entitlement. Published data on fraud and error contains more detailed breakdowns of the types of error and fraud.
- 3 Figures may not sum due to rounding.

Source: National Audit Office analysis of Departmental data on fraud and error overpayments

### **Short-term pressures to reduce fraud and error**

**1.13** The Department has a target to reduce the monetary value of fraud and error overpayments to 1.7% of benefit expenditure by March 2015. In 2013-14, the Department's provisional estimates showed that overpayments were 2.0%. In his report on the Department's 2013-14 Annual Report and Accounts, the Comptroller and Auditor General stated it was unlikely that the Department would meet its target.

**1.14** Increases in Housing Benefit overpayments make the Department's fraud and error target more difficult to achieve. In May 2014, the Department developed new proposals to reduce fraud and error across benefits by March 2015, in particular tackling the significant overpayments in Housing Benefit. The Department is still developing its plans so their impact during the current financial year is unclear.

### **Longer term plans to reform administration**

**1.15** The Department has introduced several changes to Housing Benefit administration which could affect fraud and error (**Figure 6**). It has also introduced other organisational changes as part of initiatives to reduce fraud and error in the benefits system. For example, it is introducing the single fraud investigation service, which brings together fraud investigators from DWP, local authorities and HMRC to investigate fraud across the whole welfare system. The changes introduce a single set of policies and procedures for benefit fraud investigations and a single line of accountability in the Department. This will replace the individual schemes operated at a local authority level with the aim of removing the local variation in responses to fraud and increasing efficiency. We have not evaluated the introduction of the service in this report.

**1.16** The Department intends to centralise the administration of housing cost payments for working-age claimants as part of Universal Credit. The Department plans to migrate the majority of the 3.7 million working-age Housing Benefit claimants by the end of 2017. From November 2016, local authorities will process fewer working-age Housing Benefit claims. The Department is still considering how to reform the administration of Housing Benefit for people over pension age. Local authorities will continue to process 1.3 million pension-age claimants until at least 2017-18. Following its reset of Universal Credit in 2013 the Department has changed its approach to rolling out the programme, and has delayed planned reductions in overpayments of £200 million in 2014-15.

**1.17** Local authorities have expressed concern over the migration to Universal Credit and the uncertainty about the programme's progress. Concerns include the limited information from the Department about the delayed roll-out and the implications on fraud and error within Housing Benefit caused by increased difficulty in recruiting or retaining staff.

**Figure 6**  
Changes to Housing Benefit administration

Steps	Recent developments	Current and future changes
Notification of claims or changes	Housing Benefit reforms changing entitlement rules and deductions	
Verification of claims	Localised council tax support replaced Council Tax Benefit	Migration of working-age claims to Universal Credit
	Optional risk-based verification by local authorities	Single fraud investigation service merging local investigative teams
Payment and recovery		Real-time information to support assessment of earnings
Subsidy regime		Local administration of pension age claims to continue to until at least 2017-18
		Transfer of audit contracts from Audit Commission to a transitional body (Public Sector Audit Appointments), an independent company established by the Local Government Association

**Note**

- 1 The closure of the Audit Commission does not alter the statutory duties of auditors to undertake their responsibilities. On closure of the Audit Commission, the statutory power for certification will be preserved to allow the transitional body (Public Sector Audit Appointments) to continue to make arrangements for Housing Benefit subsidy certification. The current arrangements for the certification of Housing Benefit will continue until at least 2015-16.

Source: National Audit Office review of Department information

## Part Two

### Oversight and management of fraud and error

**2.1** Control of fraud and error relies on clear and effective arrangements for oversight and management. These should align responsibilities, incentives and performance management to help the Department's and local authorities' efforts to reduce fraud and error. In this part we consider whether the Department:

- has clear responsibilities and strategies to reduce fraud and error;
- has adequate incentives to encourage local authorities to improve processes; and
- manages performance effectively to reduce fraud and error.

#### **Responsibilities not clear**

**2.2** Local authorities have a statutory responsibility to administer Housing Benefit, for which the rules of entitlement are set out in law. The Department sets policy and the legal framework for administering Housing Benefit; creates incentives for local authorities to improve performance; and provides support, information and guidance. It has established forums with local authorities to discuss operational issues, seek feedback on fraud and error proposals and communicate changes relating to the administration of Housing Benefit. Appendix Four sets out the statutory responsibilities of the Department and local authorities.

**2.3** The Department accepts that it is ultimately accountable for reducing fraud and error in Housing Benefit. Local authorities' statutory responsibility for administering Housing Benefit means that they 'own' the day-to-day responsibilities for tackling fraud and error. Local authorities also have general responsibilities to achieve best value from public spending. The 380 local authorities administer the scheme alongside the delivery of a wide range of public services. They must balance the competing objectives of getting payments out quickly to claimants with processing payments accurately.



**2.4** The Department retains residual responsibility for Housing Benefit fraud and error. First the Department measures fraud and error nationally. Local authorities do not have consistent measures of fraud and error, limiting effective local oversight. Second the Department reimburses local authorities for payments and so bears the ultimate financial risk of fraud and error. It relies on the subsidy regime to pass some of this risk to local authorities.

**2.5** Recent developments have reduced oversight of Housing Benefit fraud and error. The Department no longer sets performance standards for local authorities to tackle fraud and error. It is also centralising administration of working-age housing support under Universal Credit and rolling out the single fraud investigation service. The changes have increased uncertainty and, despite their statutory obligations, will be factors in local authorities' ongoing resourcing of work to keep Housing Benefit claims right.

### **An emerging new strategy**

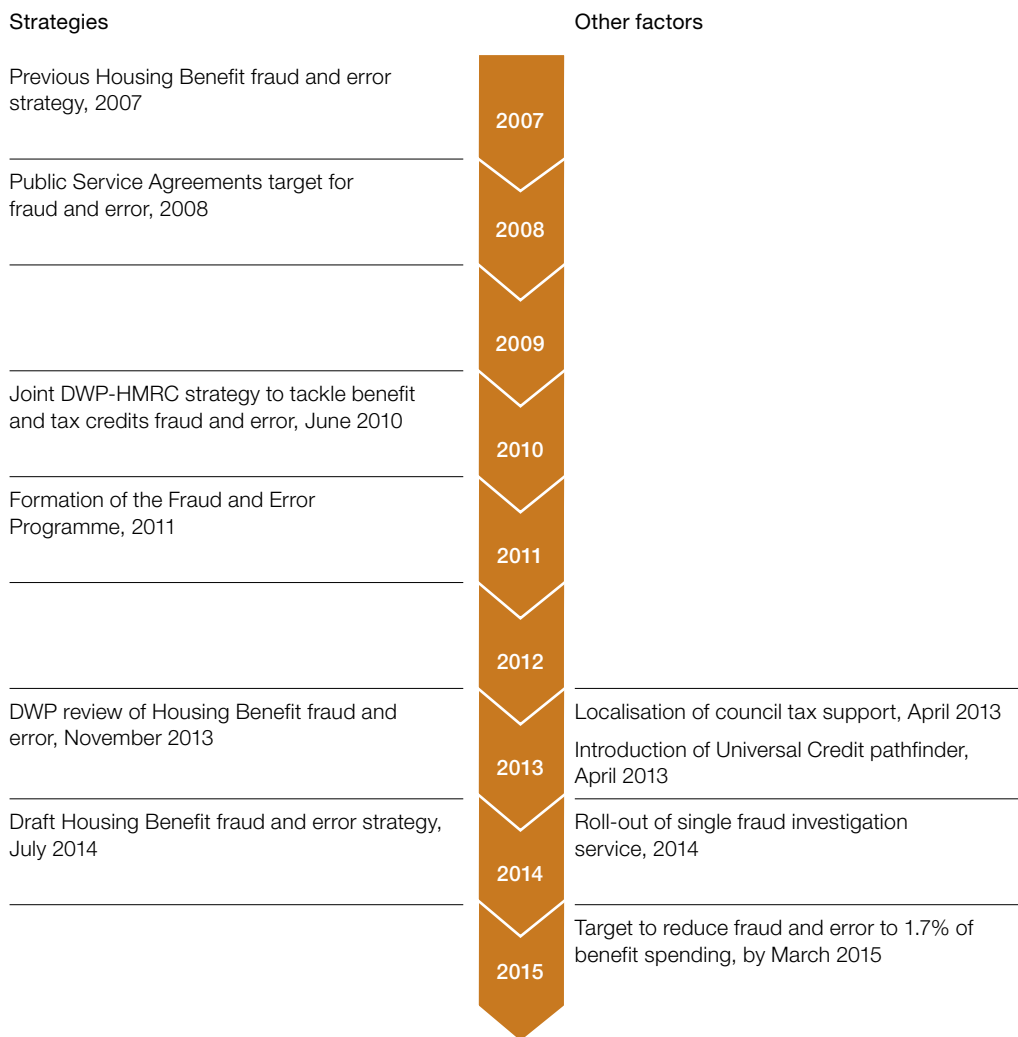
**2.6** The Department has recognised the need for a new strategy explicitly targeting Housing Benefit fraud and error. Between 2008 and 2014, it did not have a dedicated strategy or target for reducing Housing Benefit overpayments (**Figure 7** overleaf). In 2013, the Department commissioned a review to examine its approach to Housing Benefit and whether local authorities were turning attention away from fraud and error.

**2.7** In 2013, the Department also introduced a number of organisational changes to make responsibilities for fraud and error clearer across the Department. For example, it appointed a new senior responsible officer for fraud, error and debt; brought together the strategy, data and analytical teams; and introduced the Fraud and Error Service to strengthen the link between policy and operational teams. It has also introduced new data matching systems and launched advertising campaigns. The 2013-14 preliminary results suggest that these efforts have had some success as the level of fraud and error in benefits directly administered by the Department has reduced. The improvement has, however, been negated by the increase in overpayments due to Housing Benefit fraud and error.

**2.8** The Fraud Error and Debt Taskforce is the strategic decision-making body for all fraud and error, debt and grant efficiency initiatives across government. The Taskforce is comprised of ministers and senior officials from government departments. It also brings together expertise from the private sector and from across the wider public sector. In December 2013, a sub-group of the Taskforce, the Welfare Fraud and Error Board, was created to scrutinise fraud and error in the benefits and tax credits systems, and held discussions with the Department. In April 2014, the Taskforce's Secretariat requested the Department's plan to reduce Housing Benefit losses in 2014-15 and beyond.

**Figure 7**  
Timeline of fraud and error strategy

The Department is developing a new strategy for Housing Benefit fraud and error



**Note**

1 The 2010 fraud and error strategy did not identify specific initiatives within Housing Benefit or other benefit streams.

Source: National Audit Office summary of Departmental documents

**2.9** In July 2014, the Department responded to concerns raised by the Fraud Error and Debt Taskforce by setting out plans to address Housing Benefit fraud and error. The Department already understood the causes of fraud and error, and the system's constraints. The Department also accelerated the development of a new Housing Benefit fraud and error strategy which aims to:

- clarify incentives to local authorities to invest in and pursue fraud and error;
- give local authorities more support and challenge on their performance;
- give local authorities better information on where to target their work;
- make better use of existing and planned data matching; and
- review how the Department measures Housing Benefit fraud and error.

**2.10** The Department also reorganised internal responsibilities for managing Housing Benefit fraud and error. It introduced new governance arrangements to clarify working arrangements between its housing delivery division and the fraud and error strategy team. It also set up a new Housing Benefit fraud, error and debt steering group to oversee its approach. The group includes officials from the Cabinet Office, HM Treasury, the Department for Communities and Local Government and local government representative bodies.

### **Weak incentives in the subsidy regime**

**2.11** The Department uses the subsidy process to reimburse local authorities for paying the correct amount of Housing Benefit to claimants. The subsidy regime seeks to encourage the effective administration of Housing Benefit. Local authorities record the details of claims in a subsidy form, including where they have identified any overpayments, and whether these relate to claimant or official error. In 2013-14, the Department paid local authorities £23.5 billion in subsidy compared with total Housing Benefit payments of £23.9 billion. The overall rate of reimbursement was 98%.

**2.12** The subsidy process and reimbursement rates create a range of different incentives for local authorities to tackle fraud and error (**Figure 8** overleaf). Local authorities are encouraged to:

- **Prevent** fraud and error by having lower levels of reimbursement for overpayments. Because authorities get less money where there is an overpayment, they have an incentive to avoid such errors occurring. These incentives are strongest for official error, where local authorities receive no payment if they report official error above 0.54%.
- **Identify and recover** fraud and error after it has occurred. Local authorities can keep any fraud and claimant error payments they recover, which encourages them to identify overpayments. For example a local authority could receive 140% of the value of an individual overpayment due to claimant error, 40% in subsidy and then 100% as a recovered payment. In practice local authorities recover around two-thirds of identified overpayments.
- **Correctly process** new claims and notifications of changes.

**Figure 8**  
Subsidy reimbursement rates and overpayments, 2013-14

Type of overpayment	Reimbursement rate	Overpayment expenditure identified (subsidy returns)	Overpayment expenditure (national estimate)
Local authority error			
Below 0.48%	100%	£67 million (0.3%)	£150 million (0.6%)
0.48% to 0.54%	40%		
Above 0.54%	0%		
Claimant fraud and error	40%	£602 million (2.5%)	£1,240 million (5.2%)
<b>Total</b>		<b>£669 million (2.8%)</b>	<b>£1,380 million (5.8%)</b>

**Notes**

- 1 Overpayment expenditure is the level of fraud and error identified in subsidy returns; national estimate is the Department's estimate from samples of claims which it tests for fraud and error (rounding to nearest £10 million).
- 2 Percentages shown are of total Housing Benefit expenditure, £23.9 billion in 2013-14.
- 3 Overpayments identified in subsidy returns relate to 2013-14 and prior years.
- 4 Overpayment expenditure from subsidy returns is provisional and subject to certification.
- 5 Local authorities keep any overpayments they recover from claimants.
- 6 Subsidy returns also identify £26 million of other error types that are excluded above because they are not in the national estimate. Of these other types, 'technical' overpayments are the most significant. Technical overpayments occur when a Housing Benefit rent rebate has been awarded to a local authority tenant for a set period but then the tenant's circumstance changes so they are no longer entitled to the rebate – it is called a 'technical' overpayment because the claimant does not receive an actual payment.
- 7 The overpayments identified in local authority subsidy returns do not reconcile with the Housing Benefit Recoveries and Fraud National Statistics 2013-14.
- 8 Values in the national estimates column do not sum due to rounding.

Source: National Audit Office summary of Departmental documents and guidance

**2.13** The aim of the subsidy regime is to reimburse local authorities for the correct amount of Housing Benefit paid to claimants. It was originally introduced as part of a wider regime of incentives to encourage local authorities to administer Housing Benefit correctly. Supported by the certification process, the regime does encourage local authorities to process new claims and reported changes promptly and accurately. It also creates incentives to recover overpayments.

**2.14** The subsidy process does not create strong incentives for local authorities to proactively tackle fraud and claimant error after the claim has been awarded. Fraud and claimant error represents 90% of total Housing Benefit overpayments. The incentives local authorities have to prevent overpayments in the first place conflict with those they have to identify overpayments later on. Lower reimbursement rates would give strong incentives to prevent overpayments but weak incentives to identify them once they have occurred. Higher reimbursement rates would improve identification but give incentives to allow more errors through in the first place. With one instrument (the reimbursement rate) the Department cannot align local authority incentives to both objectives and the current rate seeks to balance these competing incentives.

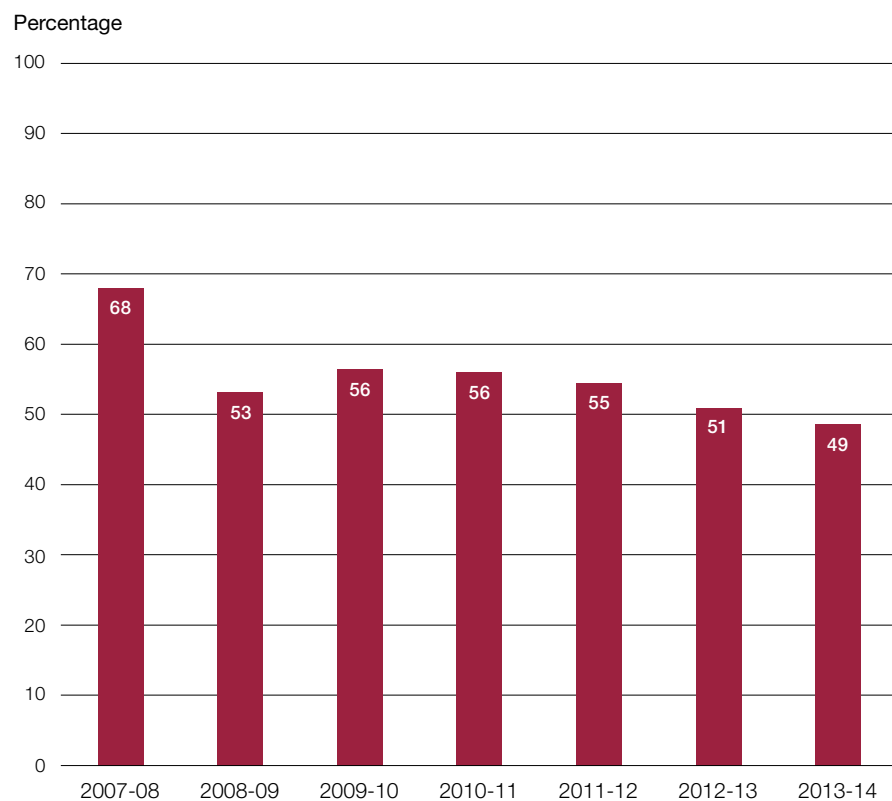
**2.15** Local authorities and their representative bodies told us that a 40% reimbursement rate – in the absence of any notification of a change of claimants' circumstances – does not encourage proactive detection work by local authorities, taking account of the costs of recovery. The Department estimates that, overall, Housing Benefit overpayments cost local authorities little, if any, of the amount lost to the public purse.

**2.16** Local authorities' identification of fraud and error appears to have declined. In 2007-08, claimant fraud and error overpayments in subsidy forms accounted for 68% of the Department's national estimate of overpayments. In 2013-14, this had reduced to 49% (Figure 9). It is unclear what has caused this reduction and the proportion has fluctuated.

### Figure 9

#### Fraud and claimant error overpayments identified by local authorities

Identification by local authorities – as a proportion of estimated fraud and claimant error in the population – has declined



#### Notes

- 1 Fraud and claimant error overpayments are reported in annual local authority subsidy returns and include overpayments for that year and prior years.
- 2 Subsidy data for 2013-14 is subject to certification.
- 3 We also looked separately at overpayments that occurred in the year in which they identified – excluding overpayments identified that related to prior years. We found that local authority detection rates for these overpayments fell markedly between 2007-08 and 2013-14. For overpayments that relate only to years before the year they were found, detection rates were broadly flat over this period.

Source: National Audit Office analysis of Departmental information

### **Certification, as required by the subsidy regime, is not designed to give assurances on fraud and claimant error**

**2.17** The subsidy regime sets out a requirement for local authority subsidy claims to be certified by independent auditors on behalf of the Department. The certification process aims to ensure that local authority subsidy claims are fairly stated and provides the Department with assurance on Housing Benefit spending. Appointed auditors take samples to check: the subsidy form reflects the evidence held to support the claim; the claimant's eligibility and entitlement; and the level of subsidy claimed by the local authority. The current approach provides the Department with assurance on the accuracy of processing new claims and the prompt handling of information relating to existing claims, and the amount of subsidy claimed. It therefore provides incentives for local authorities to process claims accurately. The estimated level of Housing Benefit official error, at 0.6% of expenditure, is relatively low compared with other benefits, reflecting the direct impact and wider deterrent effect of the subsidy and certification process.

**2.18** Auditors qualify a high proportion of the claims that local authorities submit. In 2012-13, they qualified 77% of local authorities over errors on subsidy forms, the same rate as 2011-12. The Department extrapolates errors in samples and recovers subsidy from local authorities. Errors related to the absence of documentation to support payments, benefit assessment and data entry mistakes, and errors in the analysis of expenditure on the subsidy form including misclassification.

**2.19** While a review of subsidy forms is necessary, the design of the subsidy regime means that the certification process provides less insight on the extent or effectiveness of proactive measures taken by local authorities to identify fraud and claimant error in their caseloads. In particular, local authorities are not required to check – or provide evidence to local auditors – that claimants' circumstances have remained the same. Local authorities and their representative bodies also have concerns about the regime:

- They think certification is expensive. Benefit subsidy certification costs in 2012-13 were estimated at £6.2 million. For the same year the Department recovered £8.8 million in notional overpayments, but only £1.0 million net of underpayments. The costs of certification need to be seen in the light of the assurance it provides on £23.9 billion of Housing Benefit expenditure for a complex scheme.
- They think it is bureaucratic. Uncertainty around the extent to which a mistake found in a sampled case might also apply to a wider population of claims can lead to long negotiations between the Department and a local authority. At the time of our fieldwork (July 2014), a total of 88 benefit subsidy claims from 2012-13 were still to be agreed.

## Scaling back performance management

**2.20** The Department's performance management framework for helping local authorities keep their Housing Benefit claims right has had 4 elements. The Department has changed its relative emphasis on these activities (**Figure 10** on pages 30 and 31):

- setting performance standards and measuring local authority performance against those standards;
- providing and using information to advise local authorities and assess their performance;
- making performance-related payments to local authorities for additional work on fraud and error; and
- targeting work with individual local authorities, including inspections of services.

**2.21** The Department for Communities and Local Government published the Localism Bill in 2010. The Bill sought to reduce the burden of bureaucracy and empower local authorities. The Department for Work & Pensions retained responsibility for setting performance targets and minimum standards for local authorities to tackle Housing Benefit, including fraud and error. Within this framework, the Department decided to reduce its performance management of local authorities, reflecting the drive to reduce burdens on local authorities.

**2.22** The Department has focused on local authorities' performance in respect of the speed of processing Housing Benefit claims. It ceased to set performance standards and targets for tackling fraud and error. It continues to:

- provide advice, training and guidance to local authorities;
- supply information to allow local authorities to check the validity of claims;
- publish data on local authority performance in processing claims and tackling fraud;
- contact poorly performing local authorities, inviting a response to performance concerns; and
- offer free consultancy support to individual local authorities through its performance development teams.

**Figure 10**  
Performance management of local authorities over time

**Oversight of local authorities has reduced**

Characteristics	Description	Timing
Setting performance standards and using performance measures	Housing Benefit standards in place. Local authorities assessed against standards, using performance measures. Included 6 performance measures on fraud and error (eg number of claim reviews completed)	Until 2008
	Performance measures reduced to 1 output measure in 2007-08	Until 2010
	No national performance measures or targets for local authorities	Since 2011
Incentivising fraud and error work through additional performance-related payments	Security Against Fraud and Error (SAFE) initiative	Until 2006
	Considering further ways of incentivising local authorities	Late 2014
Providing guidance, training and workshops	Formal and informal guidance, training, best practice and workshops	Ongoing
	Significant data collected from local authorities which supports delivery of counter-fraud and error work (eg ATLAS) and publication of statistics (caseload, speed of processing, and recoveries and fraud).	Ongoing
Collecting and using performance information	No data on levels of fraud and error at local authority level, limiting scope to support and challenge individual authorities and compare performance (estimate of Housing Benefit fraud and error is at a national level only).	Ongoing
	Housing Benefit Matching Service since late 1990s	Ongoing
Supplying third party data to help keep claims right	Increased flow of information to local authorities (ATLAS)	Since 2011
	Supply of HMRC 'real-time information' to local authorities	Since 2014
Offering free consultancy advice and discussing poor performance with individual authorities	Monitoring poor performance – main focus on speed of processing	Ongoing
	Performance Development Team (PDT) provide advice (reduced from 13 to 9 staff between 2008 and 2014).	Since 2008
	Increased remote-working with local authorities (77 contacts in 2013-14, up from 48 in 2012-13) as well as full assignments (26 in 2013-14)	Since 2013
	PDT role to be expanded with greater emphasis on fraud and error work.	October 2014



**Figure 10** *continued*

## Performance management of local authorities over time

**Oversight of local authorities has reduced**

Characteristics	Description	Timing
Inspecting local authority benefit services	Benefit Fraud Inspectorate did around 30 inspections annually	Until 2008
	Devolved audit bodies took over reporting on Housing Benefit services	April 2008
	In England: <ul style="list-style-type: none"> <li>● Inspection transferred to DWP</li> <li>● To reduce burden on local authorities, DWP said it would do a maximum of 15 inspections annually (but only after local authorities had chance to improve).</li> <li>● Inspections to 'focus on critical performance issues, particularly those that cause fraud and error'. One inspection since 2011-12.</li> </ul>	Since 2011

**Wider government policy relating to the performance management of local authorities**

- 2000-08: Best Value Performance Indicators (overlap with DWP performance measures)
- 2008 onwards: Policy of reducing reporting and inspection burden
- 2008–2010: National Indicator set replaced Best Value Performance Indicators (indicator on Right Benefit withdrawn in December 2009 partly because of data quality issues)
- May 2010: Localism Policy, and from October 2010, Single Dataset from local authorities
- June 2011: 'New Burdens Doctrine' requires departments to assess and fund new burdens on authorities

Source: National Audit Office analysis of Departmental documents and interviews

**2.23** The Department has reduced some of its long-standing services and increased its emphasis on remote-working with local authorities. It completed 77 desk-based interactions in 2013-14, a 60% increase on 2012-13. The Department now plans to expand its performance management team as it had reduced its consultancy service from a team of 13 in 2008 to 9 in 2014.

**2.24** The Department has also taken a lighter touch approach to interactions with local authorities. In 2010, it took on the inspection role of Local Authority Housing Benefit Services from the Audit Commission. The Department planned to undertake up to 15 inspections each year. Instead of relying on formal inspections, the Department's teams instead work with local authorities to identify issues and potential solutions. The Department has only felt it necessary to escalate to formal inspection in 1 case since 2011-12. It sees the new approach as more effective in resolving concerns.

**2.25** The Department's view is that other measures have reduced the need for direct performance management and inspection. Where the Department identifies a decline in performance, or performance which is poor relative to other local authorities, it usually writes to the local authority asking for an explanation and the measures to improve performance. It wrote 25 letters on fraud performance in 2013-14.

**2.26** The Department collects a significant amount of fraud and error information from local authorities through the Single Housing Benefit Extract. It has focused on monitoring Housing Benefit processing times and sees this as an important way to engage local authorities on fraud and error issues. Despite the volume of information it collects, the Department does not fully understand working practices in local authorities, such as the variability in approaches to tackling fraud and error and the relative effectiveness of local authority interventions. It is now developing indicators to monitor local authority performance in tackling fraud and error. The Department's approach to performance management also continues to be restricted by a lack of data on the level of Housing Benefit fraud and claimant error at a local authority level.

### **Plans to improve oversight and management**

**2.27** As part of its July 2014 draft strategy for Housing Benefit fraud and error, the Department is exploring a range of initiatives to support and incentivise local authorities to tackle fraud and error. The activities will have a particular focus on enabling and supporting local authorities to drive down claimant error. It will also expand the Performance Development Team in the Housing Delivery Division to develop a wider programme of consultancy support. This will include fraud and error indicators to help the Department target which local authorities to support and challenge.

**2.28** By introducing these initiatives, the Department is seeking to strengthen its existing performance management framework and focus on longer-term weaknesses with local authority incentives. The impact and timing of these changes on levels of fraud and error remains uncertain.

# Part Three

## Interventions to tackle fraud and error

**3.1** In addition to the overall management and oversight of Housing Benefit, the Department supports local authorities to reduce fraud and error. We are working with the Department to develop a robust methodology for evaluating the adequacy of its fraud and error response. We identified the key characteristics of an effective fraud and error response and analysed the Department's performance against this. We considered how the Department:

- funds interventions to reduce fraud and error;
- targets interventions to the major areas of risk or loss; and
- uses information to strengthen controls and prioritise resources.

### Limited funding for fraud and error

**3.2** The Department now relies primarily on the incentives created by the subsidy regime to encourage local authorities to process claims promptly and accurately. Since 2006, the Department has paid a single grant to support the administration of Housing Benefit. It has an expectation that local authorities will allocate around a third of this to 'effective new claims controls, reviews, visits and counter-fraud investigations'. But the Department cannot insist that local authorities spend the money this way and does not track whether they actually allocate funding in this manner.

**3.3** In line with its settlement under the 2010 spending review, the Department has reduced the administration grant it pays to local authorities.<sup>11</sup> Up to 2013-14, the Department paid a single administration grant for Housing Benefit and Council Tax Benefit. The national Council Tax Benefit scheme ended in March 2013 and a new system of localised support was introduced. For 2014-15, 20% of the administration grant was transferred to the Department for Communities and Local Government and the devolved administrations to be allocated to local authorities for administration of local council tax support schemes. This followed more general reductions in administration funding since 2010-11, which have coincided with an increasing number of cases (**Figure 11** overleaf).

<sup>11</sup> Comptroller and Auditor General, *Reducing Costs in the Department for Work and Pensions*, Session 2010–2012, HC 1089, National Audit Office, June 2011.

**Figure 11**

## Administration subsidy payments to local authorities since 2010-11

## Payments have declined since 2010-11

Year	Administration subsidy paid (£m)	Housing Benefit cases (million)
2010-11	565	4.8
2011-12	537	5.0
2012-13	511	5.1
2013-14	466	5.0
2014-15	345	Not available

**Note**

1 The subsidy paid in 2014-15 was reduced following the introduction of local council tax support schemes from 2013-14.

Source: Department for Work & Pensions management information and Housing Benefit Caseload Statistics: February 2014 (National Statistics)

**3.4** The Department's grant only covers part of local authorities' costs of administering benefits. In a recent publication, the Audit Commission refers to Department for Communities and Local Government published data to note that English local authorities reported spending £827 million administering benefits in 2012-13 compared with their grant of £466 million.<sup>12</sup> It is not clear how recent changes in the grant and requirements for local authorities have affected funding available for tackling fraud and error in Housing Benefit, but local authorities have raised concerns about their ability to fund services more generally.

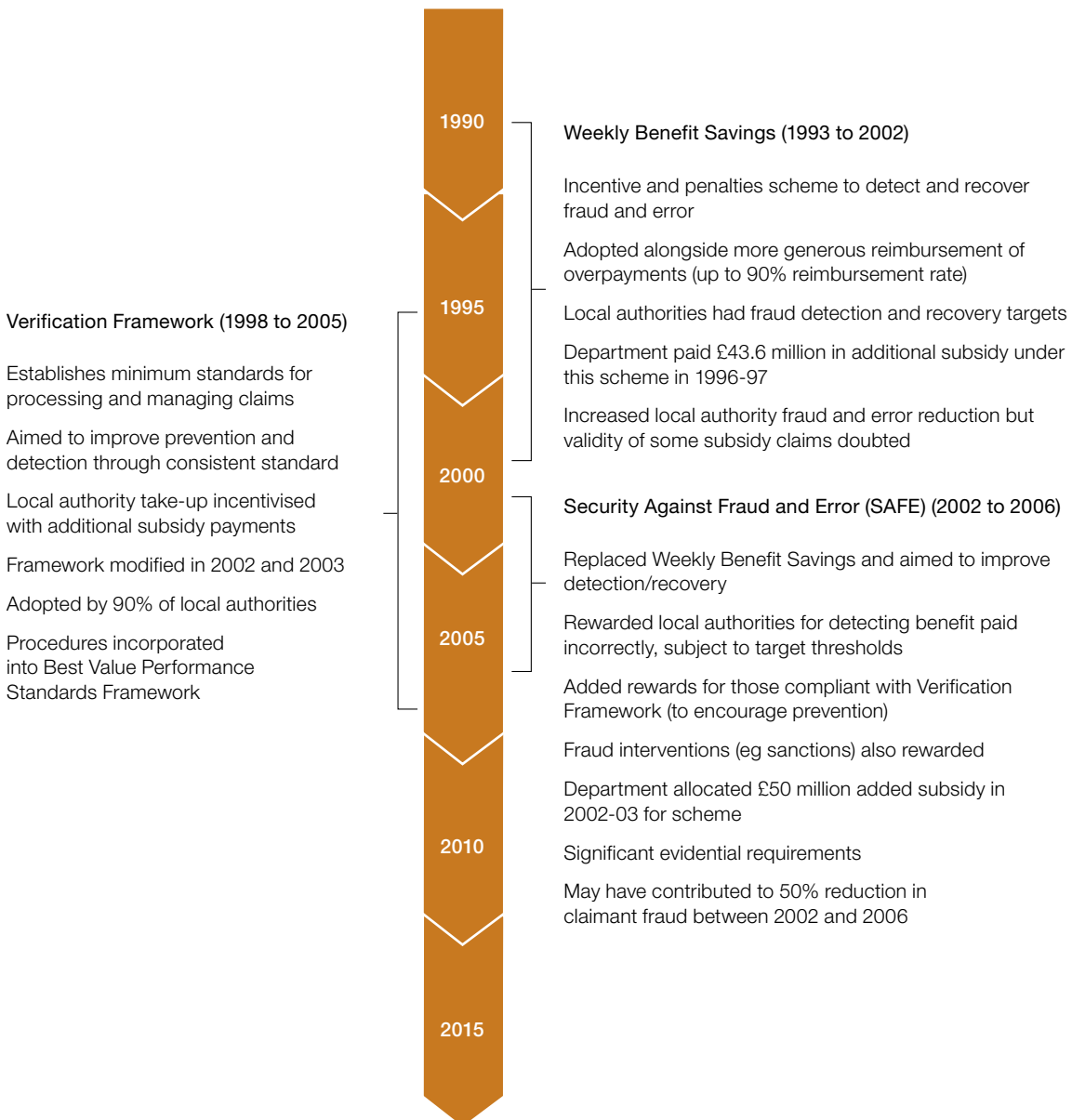
**3.5** The Department has also reduced the link between administration grants and efforts to reduce fraud and error. It used to use financial incentives to promote minimum standards for processing and managing claims (**Figure 12**). It identified targets for processing claims and changes in circumstances which would then improve detection of overpayments. The Department rewarded local authorities that exceeded targets with additional administrative grants. The Department ended this incentive in 2006 when it consolidated existing arrangements into a single payment without formal conditions on using the money to support fraud and error interventions.

<sup>12</sup> Audit Commission, *Councils' expenditure on benefits administration*, January 2014.

**Figure 12**

Previous administration subsidy initiatives

The Department used to link grants to fraud and error initiatives



Source: National Audit Office review of the Department's internal and published documents

**3.6** The Department's direct funding for new fraud and error initiatives in Housing Benefit has been limited. 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. Of this, it committed £23 million directly to Housing Benefit projects (8%). The Department has focused its support to local authorities on sharing and matching information.

**3.7** **Figure 13** shows the Department's funding on all related Housing Benefit fraud and error work. The Department also plans to spend £20 million on introducing the single fraud investigation service, including salary costs, which it believes will strengthen its capability to tackle fraud across benefits. Figure 13 does not cover the Department's spending on fraud and error initiatives in other benefits, for example, Jobseeker's Allowance. Of Housing Benefit claimants, 63% also claim other benefits and would be affected by wider initiatives to improve accuracy and detect overpayments in those benefits. However, those initiatives would not directly affect Housing Benefit-only claims, which account for around two-thirds of overpayments.

### **Signs of reduced activity**

**3.8** There are signs that reduced funding has affected work to tackle fraud and error. For example, the number of local authority fraud investigators has fallen from 1,365 in September 2009 to 1,105 in September 2013 and the number of fraud referrals is down by 25% over the same period. Reductions may also reflect efficiency and better targeting of investigations. But local authorities have expressed concern about limited resources for investigating fraud.

**3.9** In our interviews with local authorities and local government representative bodies we identified different levels of activity to tackle fraud and error. Combined with weak incentives, uncertainty about the future of Housing Benefit administration and funding constraints, local authorities recognised that their efforts to tackle fraud and error are more limited than in the past. **Figure 14** on page 38 summarises the feedback we received from local authorities and their representative bodies.

**Figure 13**  
Spending on fraud and error initiatives

The Department provides funding for a range of initiatives

	Investment	2010-11	2013-14	Notes
Data matching	ATLAS	£17m	£0.1m	£0.1m Cost of the project £20 million over 5 years including £17 million set-up costs
	Housing Benefit Matching Service	n/a	£0.3m	£0.3m Fraud and error savings of £30.4 million generated
	Real-time information (RTI)	£15.3m	n/a	£0.02m RTI will target 300,000 overpayment cases, of which 223,000 will be Housing Benefit cases  Projected costs for 2014-15: £6.4 million  DWP required to pay £3.37 million in new burdens funding to local authorities  Expected to save £15 million in Housing Benefit payments over the spending review period  Proposal to set up Benefit Integrity Centre as part of the Spend to Save Initiative at a cost of £8.4 million to cover funding for staff carrying out DWP referrals
Fraud initiatives	Single fraud investigation service (SFIS)	n/a	n/a	£0.1m SFIS will cover all DWP Welfare and HRMC administered benefits  Projected costs to be £20.2 million in 2014-15
	Credit Reference Agencies (CRA)	£3m	£1.5m	£0m CRA data used to identify potential fraud and error cases within Housing Benefit
Other local authority spend	Administration subsidy	n/a	£565m	£466m For 2014-15, subsidy paid will reduce by 20% following introduction of local council tax support schemes  As a guide local authorities should use one third of the grant on effective new claims controls, reviews, visits and counter-fraud investigations

Source: National Audit Office review of Departmental documents

**Figure 14**  
Feedback from local authorities

**Local authorities and representative bodies raised operational issues**

	<b>Current arrangements</b>	<b>Future changes</b>
<b>Notification of claims or changes</b>	<p>Focus on speed of processing. Extra processing demands linked to reforms and changed procedures prompted by localisation of Council Tax support</p> <p>Information via ATLAS, Electronic Transfer of Data, the Customer Information System and Housing Benefit Matching Service is valued</p> <p>Still concerns about quality of information from Department – burden of processing ATLAS information is considerable where local authorities manually process</p> <p>Some duplication of information from Department and quality of leads deteriorating</p>	<p>Risk that Department may have underestimated additional administration involved in processing real-time information (RTI) referrals</p>
<b>Verification of claims</b>	<p>Locally-defined risk-based verification processes are being used in some cases, supported by software</p> <p>In other places, less formal segmenting of claimant group (eg allocation of experienced staff to high risk claimant categories)</p> <p>Department focusing on processing speed</p>	<p>Locally-defined risk-based verification processes expanded</p> <p>Lack of information on Universal Credit undermining resource planning, recruitment and retention</p>
<b>Payment and recovery</b>	<p>Reduced administration grant leading to reduced fraud and error work</p> <p>Overpayments often difficult and expensive to collect</p>	<p>Concerns raised about how single fraud investigation service will integrate with other local authority fraud work (eg tenancy fraud) and, in the meantime, local authorities reported uncertainty among staff</p>
<b>Subsidy regime</b>	<p>Benefit subsidy regime does not create strong incentives to find claimant fraud and error</p> <p>Focus is on local authority error and processing delay because of grant certification method</p> <p>Subsidy certification is bureaucratic</p>	

Source: National Audit Office analysis of local authority feedback and call for evidence from local authority representative bodies



## Scope to improve targeting of major risks

**3.10** The major cause of overpayments is changes in claimants' income, which accounted for an estimated £637 million (46%) of Housing Benefit fraud and error. The Department collects information on fraud and error by claimant group, risk type and the year it entered the system. The data represents the Department's best available information on causes of fraud and error. We used the data to develop a 'heat map' of the major areas of loss to evaluate how fraud and error controls and interventions address the risks (**Figure 15**). Housing Benefit overpayments are mainly due to claimants mis-declaring or not reporting changes to their income. Income-related overpayments have increased by 32% since 2011-12.

**Figure 15**

Breakdown of Housing Benefit fraud and error by risk type – 2013-14 compared to 2011-12

Heat maps show how fraud and error has changed over time

Risk area	2013-14 preliminary estimate		2011-12 estimate		Change over time	
	(£m)	(%)	(£m)	(%)	(£m)	(%)
Income	637	46.1	482	42.9	155	32.1
Living together	223	16.1	152	13.5	71	46.7
Abroad/Untraceable/Residency	154	11.2	184	16.4	-30	-16.3
Condition of Entitlement	143	10.3	189	16.8	-46	-24.3
Capital	76	5.5	65	5.8	11	16.9
Controls	9	0.7	10	0.9	-1	-10.0
Other	140	10.1	41	3.7	99	241.5
Estimated totals	1,382	100	1,123	100	259	23.1

● Greater than 15% of loss   
 ● Between 7.5% and 15% of loss   
 ● Between 2.5% and 7.5% of loss   
 ● Less than 2.5% of loss

### Notes

- Income includes: Earnings/Employment, income-Occupational and Personal Pensions, Income-Other and Income-Other benefits. Living together includes: Household Composition and Non-dependent deductions. Conditions of entitlement includes: Housing costs, Passporting, Tax credits and Premiums.
- Base value for percentages in 2013-14 and 2011-12 columns is, respectively, £1.4 billion and £1.1 billion, the estimated overall value of fraud and error in those years. Base value for percentages in 'change over time' column is the 2011-12 monetary value estimate for that risk type.
- Figures may not sum due to rounding.

Source: National Audit Office analysis of Department for Work & Pensions, *Fraud and Error in the Benefit System: Preliminary 2013/14 Estimates (Great Britain)*, May 2014

**3.11** Local authorities process most new claims accurately. The Department's analysis indicates that just 5% of fraud and error overpayments occur at the start of the claim. Local authorities verify claims and can set their own controls. Our work with a small number of local authorities showed that they applied a consistent level of checks on new claims and had quality assurance arrangements to check payment accuracy. The accuracy of processing new claims is, though, restricted by the limited access to data from independent sources to check claimant circumstances, and the benefit's complexity.

**3.12** Local authorities now have more flexibility to deal with new claims. Around one quarter of local authorities used risk-based approaches to checking new claims, some using analysis and risk tools to identify higher-risk claims. Some local authorities also dedicate more experienced staff to certain claimant categories believed to be higher risk. The Department does not know whether these approaches are more effective in reducing fraud and error.

**3.13** The Department and local authorities are less successful in controlling fraud and error introduced through unreported changes in claimants' circumstances. Approximately 95% of fraud and error arises during the life of a claim because claimants wrongly report, or fail to report, changes. It is important, therefore, that the Department and local authorities devote adequate resources to proactively identifying fraud and error in the caseload. This is particularly important in Housing Benefit as the scheme does not formally require claimants to renew their claim periodically. The Department's own analysis indicates, however, that local authorities are now identifying a lower proportion of Housing Benefit overpayments than in previous years.

**3.14** The Department assesses the risks of claimants' circumstances changing, but this information is not used consistently. The Department gives local authorities a risk profile of their claimants, but there is no formal requirement for them to use this information. We also found variations in the resources committed by local authorities to identifying possible overpayments in their caseload, because of reduced administrative funding. The Department's analysis shows that communicating directly with claimants remains an effective way of finding fraud and error, but local authority interventions and reviews have declined.

### **Improving the use of information**

**3.15** We and the Committee of Public Accounts have called repeatedly for the Department to use information better to reduce fraud and error. The Department holds information on other benefit payments and claimant circumstances which it can compare with applications to local authorities for Housing Benefit. The Department can also use its analysis of claimants to identify higher-risk claims based on demographic factors or details about the claim.

**3.16** The Department has increased use of automated data-matching procedures and information to improve detection and prevention of fraud and error. It now provides 2 major services to help local authorities identify fraud and error. ATLAS (Automated Transfer to Local Authority System) allows the Department to notify local authorities daily about changes in claimant details in its other benefit systems. The Housing Benefit Matching Service runs monthly scans of claims and identifies higher-risk claims. Both initiatives target the problems with identifying changes in claimant circumstances and have reduced fraud and error (**Figure 16 and Figure 17** overleaf).

**3.17** The Department and local authorities could improve the use of these services. Local authorities vary in the extent to which they have automated processing of ATLAS notifications and can struggle to get through the volume of notifications they get. The Department sends large numbers of notifications about small changes to details and does not prioritise higher-risk changes. Both systems also experience timing delays which make capturing up-to-date information for claim processing unreliable. The Department originally expected ATLAS would save £763 million over a 5-year period compared with its most recent estimate of £309 million over this time.

## Figure 16 ATLAS

**ATLAS has delivered savings, but it could be more effective**

Aim of project	To enable local authorities to keep Housing Benefit claims up to date by providing notification of changes and terminations reported to the Department on other benefits and HM Revenue & Customs' Tax Credits
Performance	<p>Cost: £20 million over 5 years, including £17 million set-up costs</p> <p>Original forecast savings: £763 million over 5 years. Current forecast savings: £309 million over 5 years</p> <p>Nineteen million referrals to local authorities in 2014-15</p>
Operational issues	<p>The Department provides local authorities with a daily download of changes. Its aim was that changes to claims would be automated, using batch processing. However, local authorities reported that they often needed to contact claimants for further information on the nature of the change before determining the need to amend the award</p> <p>Wide variations in the level of automation across local authorities</p> <p>14% of notifications led to a change in award</p> <p>Overlap with other referrals and the Housing Benefit Matching Service</p>

Source: National Audit Office review of Departmental documents

**Figure 17**

## Housing Benefit Matching Service

The service tackles a major source of overpayments but is limited by operational constraints

Aim of project	To identify changes to claimant circumstances that have not been reported – by matching data held by local authorities against data from other benefit systems, HMRC, HM Prison Service and Royal Mail
Performance	<p>There were 274,000 referrals to local authorities in 2013-14, some 5% of the claimant caseload</p> <p>Local authorities returned 181,000 cases. 28,000 cases led to a change in award (15%)</p> <p>In 2013-14, generated fraud and error savings of £30.4 million</p>
Operational issues	<p>The Department provides local authorities a list of referrals each month. Local authorities review referrals and, as needed, amend claims. Local authorities have discretion on working referrals. Backlog of 93,000 cases awaiting review</p> <p>Overlap with ATLAS referrals and other notifications, duplicating referrals and work</p>

Source: National Audit Office review of Departmental documents

**3.18** The Department could also improve the effectiveness of the Housing Benefit Matching Service as the criteria used to identify high-risk claims do not align with major loss areas (**Figure 18**). For example, there were only 16,000 referrals on earnings (0.3% of the number of claimants), although this accounts for 36% of overpayments (£498 million). Also, local authorities do not have to process referrals within a specified time and a backlog had arisen at the year end. The Department is considering how to improve service take-up and improve the targeting of scans.

**3.19** The Department is seeking to improve its access to other government data. As the roll-out of Universal Credit has been delayed, the Department is now accelerating its use of real-time information on legacy benefits. It has started to use HMRC's real-time information data to strengthen its controls on claimants' earnings, the biggest single cause of overpayments. In summer 2014, it implemented a project to check local authorities' claimant data. It forecast that this would identify 223,000 incorrect Housing Benefit claims and reduce fraud and error by £30 million (5% of income overpayments). However, resource constraints have limited local authorities' ability to process the changes identified from the scans. It now expects the project to deliver £15 million of savings this year. The Department also recognised that some claimants, such as the self-employed, are not covered by the system. Nonetheless real-time information does give the Department opportunities to reduce overpayments due to earnings.

**Figure 18**

## Analysis of risk rules against a breakdown of overpayments

The Department could target rules more against areas of major loss

Risk area	Estimated fraud and error		Number of HBMS rules 2013-14	Number of referrals 2013-14	Strike rates (%)	Savings (£m)
	(£m)	(%)				
Earnings/Employment	● 498	● 36	1	16,397	27.7	1.9
Income – Other benefits	● 12	● 0.9	10	134,533	11.1	18.5
Income – Occupational and Personal Pensions	● 53	● 3.8	2	22,507	21.6	1.5
Income – Other	● 74	● 5.4	0	0	0	0
<b>Total Income</b>	● <b>637</b>	● <b>46.1</b>	<b>13</b>	<b>173,437</b>	<b>20.6</b>	<b>21.9</b>
Living together	● 223	● 16.1	12	7,774	0.7	0.01
Abroad/Untraceable/Residency	● 154	● 11.2	7	44,093	8.8	2.6
Condition of Entitlement	● 143	● 10.3	1	508	16.2	0.6
Capital	● 76	● 5.5	2	48,266	4.6	5.7
Controls	● 9	● 0.7	0	0	0	0
Other	● 140	● 10.1	0	0	0	0
<b>Total</b>	<b>1,382</b>	<b>100</b>	<b>35</b>	<b>274,078</b>	<b>15.1</b>	<b>30.4</b>

● Greater than 15% of loss   
● Between 7.5% and 15% of loss   
● Between 2.5% and 7.5% of loss   
● Less than 2.5% of loss

**Note**

1 Figures may not sum due to rounding.

Source: National Audit Office analysis of Department for Work & Pensions, *Fraud and Error in the Benefit System: Preliminary 2013/14 Estimates (Great Britain)*, May 2014

**3.20** The Department recognises that better information could help target interventions. Its analysts have developed a good understanding of fraud and error trends and the effectiveness of interventions. The Department could make more use of its analysis to design initiatives to reduce fraud and error. For example, it could develop more bespoke responses for different risk types and profile the population to deepen its understanding of claimant behaviours that lead to overpayments. This includes a better understanding of patterns of changes to claimant circumstances or what happens to claims after they have been corrected.

**3.21** Ultimately the Department could use its information to develop a strategic overview of major risks and interventions. For example, our recent report on HMRC's Accounts noted HMRC's development of a new 'Strategic Picture of Risk' which combines data, intelligence and economic analysis to provide a more comprehensive view of tax evasion and avoidance risks.<sup>13</sup> This includes more detailed analysis to show how risks relate to customer groups and behaviours. HMRC intends to use the assessment more explicitly in managing its business, developing a clearer link to the resource allocation process.

<sup>13</sup> *HM Revenue & Customs 2013-14 Accounts: Report by the Comptroller and Auditor General*, July 2014.

# Appendix One

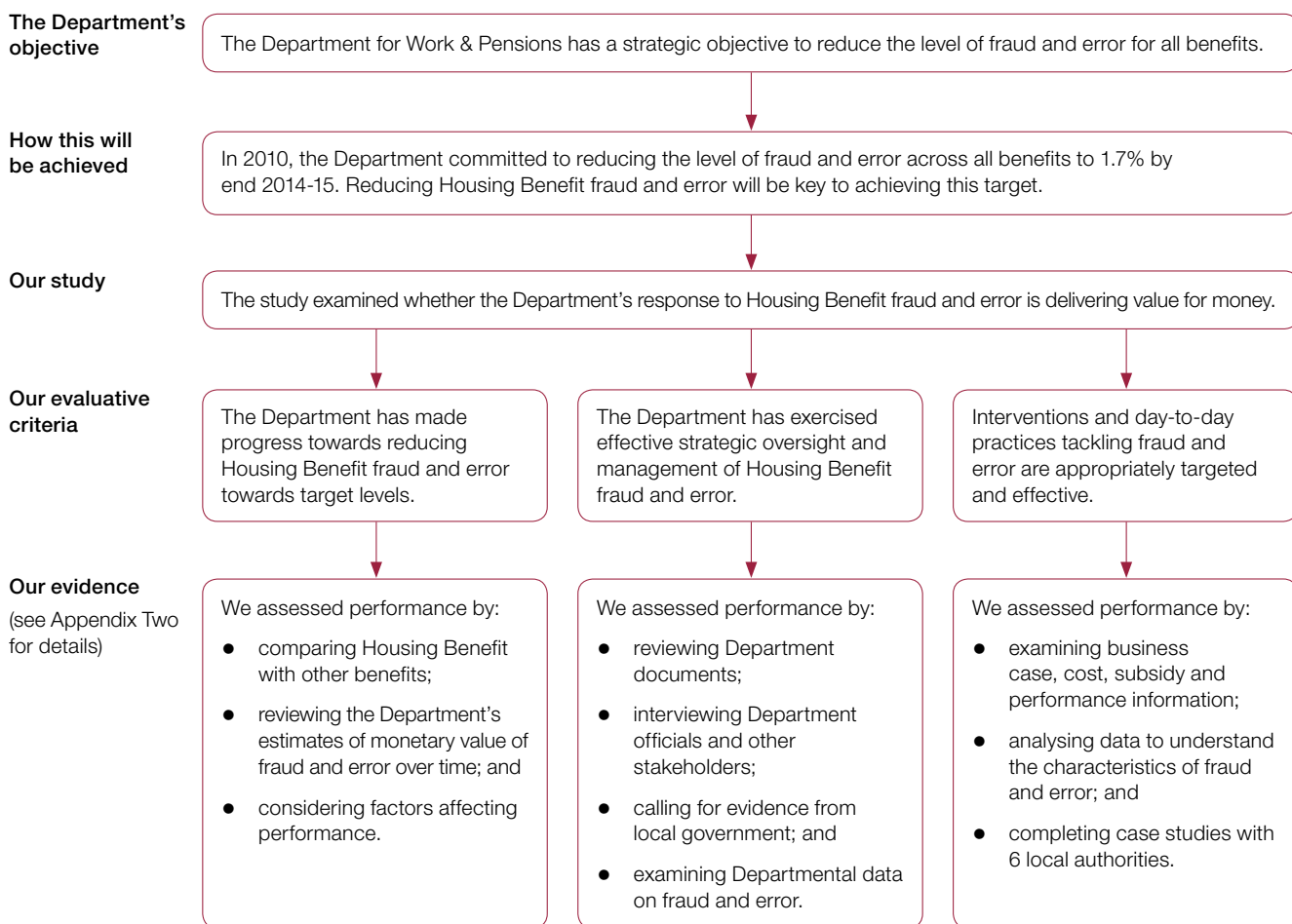
## Our audit approach

**1** This study examined the Department for Work & Pensions' response to Housing Benefit fraud and error and whether this was value for money. We reviewed:

- recent trends in Housing Benefit fraud and error;
- oversight and management of fraud and error; and
- the interventions designed to tackle fraud and error.

**2** Our audit approach is summarised in **Figure 19** overleaf. Our evidence base is described in Appendix Two.

**Figure 19**  
Our audit approach





# Appendix Two

## Our evidence base

**1** We concluded on whether the Department is getting value for money after analysing the evidence we collected between June and August 2014.

**2** We developed an evaluative framework to determine good practice in tackling Housing Benefit. Drawing on our past experience, we considered the underlying incentives (strategy, oversight, and process and performance management) to address fraud and error; the interventions and mechanisms operating or planned; and the day-to-day procedures for assessing and monitoring Housing Benefit claims.

**3 We examined the Department's progress in tackling Housing Benefit fraud and error:**

- Comparing Housing Benefit fraud and error levels with other benefits, and trends.
- Considering the factors that may be significant in increasing fraud and error.

**4 We assessed whether the Department has deployed effective strategic oversight and management in how it mitigates fraud and error by doing the following:**

- Reviewing Departmental documents to understand how it has managed local authorities administering Housing Benefit. Documents included strategy papers, guidance, circulars, meeting minutes and papers setting out the performance management framework.
- Reviewing documentation from the Audit Commission, Audit Scotland and the Wales Audit Office.
- Interviewing Departmental officials to understand the Department's approach, its incentive mechanisms, its methods for performance management and how it reimburses local authorities.
- Interviewing officers from local government representative bodies (we met with representatives from the Local Government Association, the Society of District Treasurers and the Institute of Revenues Ratings and Valuation), and officials from other government departments including the Cabinet Office and HM Treasury.
- Holding early discussions with the Audit Commission, Audit Scotland and Wales Audit Office who are involved in overseeing certification arrangements.

- Making a 'call for evidence' to local authority representative bodies. We invited 14 representative bodies to give evidence and 9 responded including: the Association of North East Councils, the Society of District Treasurers, the Society of Unitary Treasurers, the Society of London Treasurers, the Local Government Association, Scottish Local Authority Investigations Officer Group, Fighting Fraud Locally Strategic Board, Welsh Local Government Association and the Convention of Scottish Local Authorities.
- Analysing published statistical data, for example on estimates of the monetary value of fraud and error across main benefits (including Housing Benefit); and on Housing Benefit recoveries and fraud.
- Analysing Departmental data from local authority subsidy returns (for example on the value of overpayments) and administration subsidy records.

**5 We assessed whether the interventions and day-to-day practices for fraud and error in Housing Benefit are effective by doing the following:**

- Reviewing interventions in place or planned to promote using data and analytical techniques, arrangements to promote risk-based approaches, and arrangements to increase the automation of fraud and error controls.
- Undertaking analysis to understand the characteristics of Housing Benefit fraud and error to see whether interventions and day-to-day processes aligned with those characteristics.
- Completing 6 case study visits to local authorities (County Durham, Eden, London Borough of Lambeth, Leeds, Leicester, London Borough of Wandsworth). In each visit we spoke to the Head of the benefits administration team and to front-line benefit claims processors to understand their approach and how they work with the Department. We selected the 6 case studies to give a mix of local authority types, geography, delivery model and performance.
- Reviewing Department documentation, including business case, design and monitoring documents relating to Department-sponsored fraud and error interventions like ATLAS.
- Analysing subsidy data and financial data on the costs of Department interventions targeting fraud and error; and reviewing performance information.

# Appendix Three

## Significance of fraud and error changes

**1** The Department estimates the monetary value of fraud and error by testing a sample of over 12,000 Housing Benefit claims. The Department publishes ranges for 95% confidence intervals around its central estimates. In statistical releases the Department also states whether year-on-year increases are significant at the 95% confidence level.

**2** In this report we use central estimates to describe Housing Benefit fraud and error, in line with our practice for reports on the Department's accounts. We recognise that the central estimates are subject to confidence intervals and this appendix describes the reasons why we judge that the recent increase in estimated overpayments should be a cause for concern for the Department. In the report we:

- Include central estimates where the primary aim of including the estimate is to give readers a sense of the scale of fraud and error against, for example, other benefits or total expenditure.
- Include central estimates where we split overpayments into detailed components and causes, and where inclusion of detail on ranges would be confusing for readers. In figures we clarify in legends or footnotes that we are referring to central estimates.
- Describe trends in overpayments using central estimates but acknowledge confidence intervals and significance tests, and direct readers to this appendix for further detail on why we believe that there are strong indications that overpayments have increased.

**3** Given the uncertainty in the Department's estimation, we performed some simple tests on the statistical significance of movements in measured fraud and error between 2010-11 and 2013-4. Tests comparing total overpayments in 2013-14 with those in 2010-11 show that the change is not significant at either the 95% or 90% confidence level. The breakdown of fraud and error shows that changes in underpayments and claimant error overpayments have been significant at the 90% level. **Figure 20** overleaf summarises the results of simple tests comparing 2010-11 and 2013-14 estimates.

**Figure 20**

## Significance of increases between 2010-11 and 2013-14

## Changes in claimant error and underpayments are significant at the 90% level

	2010-11	2013-14	p-value	95% level	90% level	80% level
Total overpayments	4.6%	5.8%	0.052	No	No	Yes
Fraud	1.4%	1.4%	0.482	No	No	No
Claimant error	2.8%	3.8%	0.044	No	Yes	Yes
Official error	0.4%	0.6%	0.216	No	No	No
Total underpayments	1.3%	1.6%	0.013	Yes	Yes	Yes
Claimant error	1.0%	1.2%	0.073	No	No	Yes
Official error	0.2%	0.3%	0.028	No	Yes	Yes

**Notes**

- 1 Significance tests assume that the rate of fraud and error is distributed normally; we use the Department's estimates of means and standard errors and test whether the difference in distributions between the 2 years is significantly different from zero.
- 2 This is a simple test of whether fraud and error has changed significantly and is designed to illustrate the impact of uncertainty in estimation on identifying trends over time. Lack of significance in any of these tests does not imply that there can be no meaningful interpretation of the Department's estimates.
- 3 P-values denote the probability of the observed increase in overpayments or underpayments assuming a null hypothesis of no change between 2010-11 and 2013-14. The p-value is used to establish whether the changes are significant at different levels using a two-tailed test. For example, for total overpayments the p-value is 0.052. In a two-tailed test at the 90% significance level the change is deemed significant if the p-value is less than 0.050, so in this case the result in the table is 'no'.

Source: National Audit Office analysis

**4** The Department's measurement does show an increase in the central estimate of total overpayments over a three-year period. There are several reasons why we feel this trend raises concerns and indicates that fraud and error overpayments have increased:

- Central estimates are the best single-point indicators of the current levels of overpayments or underpayments and should be the basis for appropriate decision-making by the Department in its response to fraud and error.
- The tests still show indications of increases in fraud and error, particularly for claimant error. The p-value for total overpayments – the probability of the observed change assuming that there is in fact no change – is 0.052. A level of 0.050 or lower would be deemed significant under a 90% two-tailed test.
- More sophisticated tests of significance would take into account the sustained upward trend of estimates over recent years rather than simply compare 2 specific years. As a result we believe that our simple tests under-report the significance of estimated increases. But there are inevitably limitations in any tests of this kind.
- Statistical tests need to be seen in the context of wider changes in the environment. In our view the reductions in performance management, resourcing and incentives to manage Housing Benefit fraud and error all suggest that increases in estimates of fraud and error cannot be dismissed.

# Appendix Four

## Roles and responsibilities

**1** **Figure 21** overleaf sets out the Department's and local authorities' responsibilities in relation to the administration of Housing Benefit against the relevant legislation and regulations.

## Figure 21

### Roles and responsibilities

#### Local authorities

##### Social Security Administration Act 1992

The Act sets out local authorities responsibilities in relation to the administration of Housing Benefit:

- Housing Benefit is funded and administered by the appropriate authority. The act sets out the local authorities' statutory responsibility under the act.<sup>1</sup>
- For each year the Secretary of State shall pay subsidy to each authority.<sup>2</sup>
- The Secretary of State may by regulations require a local authority in any prescribed case to apply to a rent officer for a determination to be made in pursuance of the Housing Act functions and any such authority shall comply with prescribed requirements as to the time for making such an application.<sup>3</sup>

##### Statement of Local Authority claimed entitlement to Housing Benefit subsidy (subsidy claim form)

Before submitting the local authorities' subsidy estimate to the Department, the section 151 Officer must certify that:

- the entries on the subsidy form are accurate;
- the expenditure has been properly incurred in accordance with the Social Security Contributions and Benefits Act 1992 and the Housing Benefit (General) Regulations 1987;
- the claim for subsidy and information given is in accordance with those Acts;
- no amounts on the claim have been included in any claim by an authority or authorities acting as agents; and
- the authority's administrative systems, procedures and key controls for awarding benefit operate effectively and the authority has taken reasonable steps to prevent and detect fraud.

#### Notes

- 1 Social Security Administration Act 1992, section 134 Arrangements for Housing Benefit.
- 2 Social Security Administration Act 1992, section 135 Housing Benefit Finance.
- 3 Social Security Administration Act 1992, section 136 Rent allowance subsidy and determinations of rent officers.
- 4 DWP Accountability System Statement August 2014, section 2.1 Housing Benefit and Discretionary Housing Payments.
- 5 HM Treasury Managing public money, section 7.10.2.
- 6 HM Treasury Managing public money, section 7.10.3.

Source: National Audit Office summary

#### Department for Work & Pensions

##### Accountability System Statement August 2014

This statement explains how the Accounting Officer meets their responsibilities in relation to the resources the Department allocates to local authorities and other local bodies outside the Department's direct management chain. In respect of Housing Benefit:

- the Department funds local authorities for Housing Benefit which is managed through the annual subsidy returns;
- the Department supports local authorities where appropriate through data sharing;
- the Department makes payments towards the administration of Housing Benefit; and
- the Department helps to reduce fraud and error in Housing Benefit through data sharing.<sup>4</sup>

##### HM Treasury Managing public money July 2013

Accounting officers in government departments are accountable to Parliament for the proper stewardship of the resources allocated to the department. Details of the requirements to ensure regularity, propriety and value for money are set out in this guide:

- Parliament expects assurances that grants to local authorities are used appropriately ie that they are spent with economy, efficiency and effectiveness, and not wasted nor misused.<sup>5</sup>
- Central government departments should draw up an annual account of how their accounting officers assure themselves that grants to local government are distributed and spent appropriately and how underperformance can be dealt with.<sup>6</sup>

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