National Audit Office

Department for Work and Pensions 2015-16 Accounts

Report by the Comptroller and Auditor General

Fraud and error in benefit expenditure

Fraud and error in benefit expenditure

Introduction

1. The Department's total estimated expenditure on benefits in 2015-16 was £172.0[1] billion, of which £147.7 billion was for benefits paid directly by the Department and £24.3 billion for benefits paid on the Department's behalf by local authorities (Housing Benefit). Benefit expenditure represents 96% of the Department's 2015-16 total net operating costs of £179.9 billion, as recorded in the Department's Annual Report and Accounts.

2. Fraud and error is a significant problem in benefit expenditure; the Department faces a challenge in administering a complex benefits system in a cost effective way. Overpayments arising from fraud and error increase costs for taxpayers and reduce public resources available for other purposes. Underpayments mean households are not getting the support they are entitled to.

3. Benefit payments are susceptible to both deliberate fraud and unintended error by claimants and the Department: entitlement is based on a range of eligibility criteria; it relies on claimants' accurate and timely notification of changes of circumstances; and the complexity of benefits can cause confusion and genuine error. Some benefits, mainly those with means-tested entitlements, are more susceptible to fraud and error due to their complexity. These ones, exhibiting the highest estimated rates of fraud and error, are Pension Credit, Housing Benefit and Universal Credit.

4. This report sets out the reasons and context for my qualified audit opinion: the trends, reasons behind fraud and error and actions to reduce fraud and error in benefits; and the planned migration of legacy benefits and Personal Tax Credits to Universal Credit.

Qualification of the Comptroller and Auditor General's audit opinion on the regularity of benefit expenditure

5. Under the Government Resources and Accounts Act 2000, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them (my regularity opinion).

6. Legislation specifies entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. Where fraud and error result in over or underpayment of benefit to an individual who is either not entitled to that benefit, or is paid at a rate which differs from that specified in the legislation, the transaction does not conform with Parliament's intention and is irregular. In respect of the 2015-16 financial statements of the Department for Work and Pensions, I have qualified my opinion on regularity due to the material level of fraud and error in benefit expenditure, other than the State Pension where the level of fraud and error is significantly lower.

7. The Department's accounts, and those of predecessor departments administering this expenditure, have received similar qualified audit opinions since 1988-89. Issuing an audit qualification is a serious matter, and the fact that similar qualifications have been in place for such a long period of time does not lessen that seriousness. I consider that the overall value of fraud and error in benefit expenditure remains unacceptably high, and the qualification of my audit opinion reflects that.

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[1] According to Note 22 to the accounts, the total expenditure figures quoted are the latest estimated expenditure figures available for 2015-16 at the time the Department produced the fraud and error estimates.

Estimated level of fraud and error in benefit expenditure

8. In note 22 to the accounts the Department reports its preliminary estimate that overpayments due to fraud and error in 2015-16 were 1.8% of total forecast benefit expenditure[2]. This maintains the lowest recorded level reported in the 2014-15 final estimates in November 2015 of 1.8%, and shows a year on year reduction against the equivalent 2014-15 preliminary estimates of 1.9% which were reported in the Departments Incorrect Payments Note last year. The Department estimates that total gross underpayments in 2015-16 increased to 1.0% of total forecast benefit expenditure (2014-15 0.9%). This equates to overpayments of £3.1 billion and underpayments of £1.8 billion (2014-15 - overpayments of £3.2 billion and underpayments of £1.4 billion).[3]

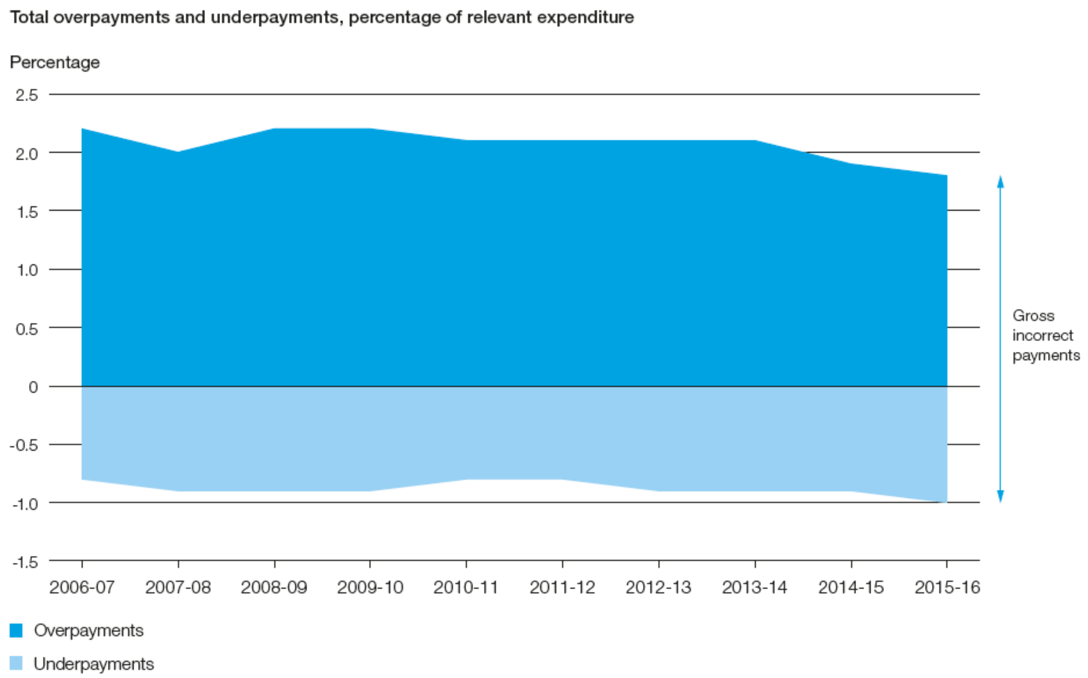
9. For State Pension expenditure, the Department estimates that the level of overpayments decreased to 0.1% of related expenditure (from 0.2% in 2014-15). Underpayments increased to 0.3% of related expenditure (from 0.2% in 2014-15). This equates to overpayments of £110 million and underpayments of £260 million (2014-15- overpayments of £130 million and underpayments of £150 million).

10. Excluding State Pension, the Department estimates that fraud and error in benefit expenditure resulting in overpayments decreased slightly to 3.6% of related expenditure (from 3.7% in 2014-15). Underpayments increased to 1.8% of related expenditure (from 1.6% in 2014-15). This equates to overpayments of £3.0 billion and underpayments of £1.5 billion. It is these gross values, excluding State Pension, that lead to my qualified regularity opinion.

11. The total estimated value of over and underpayments of benefit expenditure due to fraud and error as a percentage of benefit expenditure since 2006-07 are shown in **Figure 1** below. **Figure 2** shows the over and underpayment rates for all benefits excluding State Pension, with the rates for all benefits including State Pension, and the rates for State Pension, for comparison.

Figure 1

Estimated gross incorrect payments



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[2] Fraud and error figures quoted in this report are central estimates (or 'mid-points') within a 95% confidence interval. This range reflects the uncertainty within the *Fraud and Error in the Benefits System* estimates.

[3] The 2014-15 comparatives used here, in the C&AG's certificate and disclosed by the Department in their 2015-16 accounts Note 22 *Incorrect Payments* are from the preliminary 2014-15 *Fraud and Error in the Benefits System* statistics which were the latest estimates available when the 2014-15 accounts were published. DWP published its final estimates for 2014-15 in November 2015.

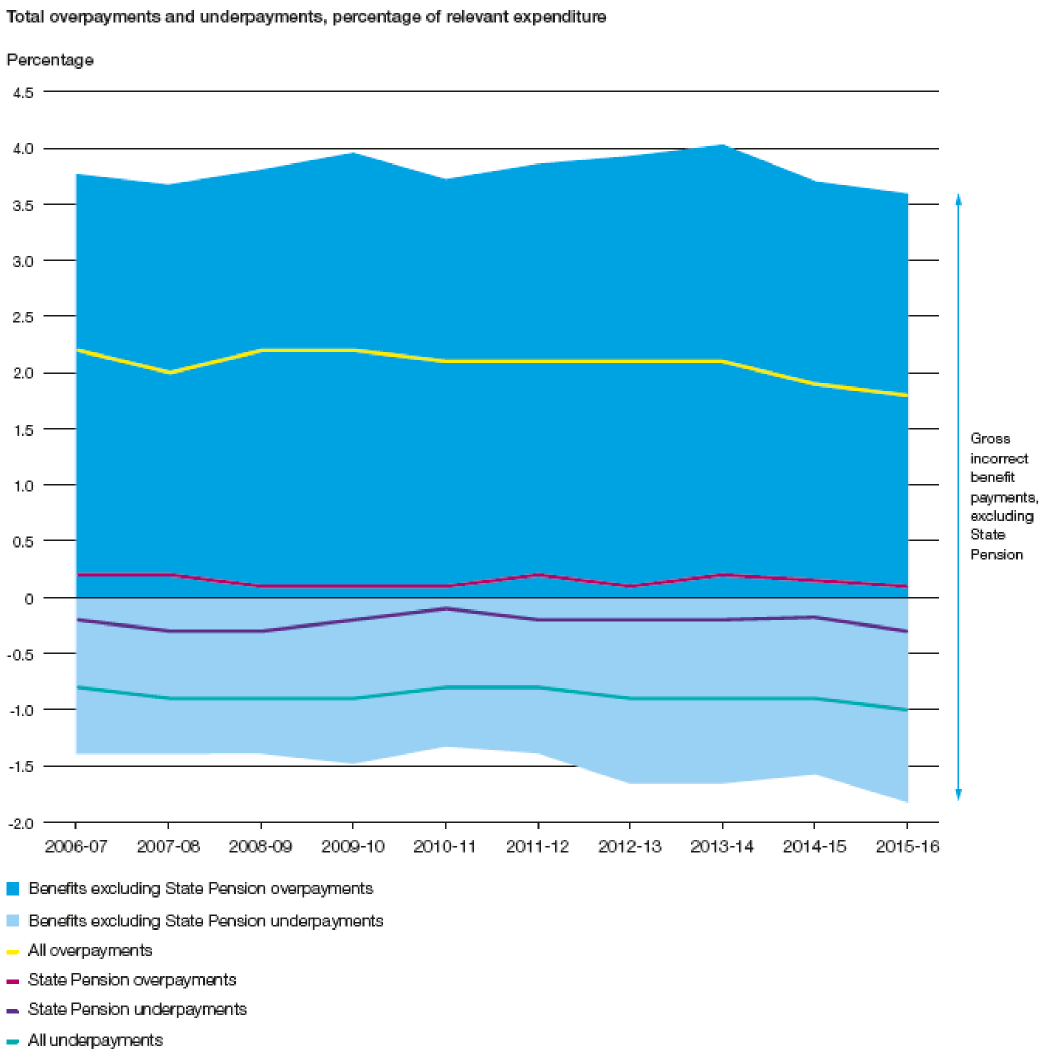
NOTE

1. All rates included in the above figure are from the Department for Work and Pensions, *Fraud and Error in the Benefit System Final* published statistics for each year, with the exception of the 2015-16 and 2014-15 rates which use the preliminary results as reported in Note 22 to the 2015-16 DWP Annual Report and Accounts, which were the latest available at the time of reporting.

Source: National Audit Office analysis of Department for Work and Pensions data included in *Fraud and Error in the Benefits System* estimates. Figure 1 is supported by the table in Figure 9 in Annex 1 to this report.

Figure 2

Over and under payments in benefits excluding State Pension



NOTE

1. All rates included in the above figure are from the Department for Work and Pensions, *Fraud and Error in the Benefit System Final* published statistics for each year, with the exception of the 2015-16 and 2014-15 rates which use the preliminary results as reported in Note 22 to the 2015-16 DWP Annual Report and Accounts, which were the latest available at the time of reporting.

Source: National Audit Office analysis of Department for Work and Pensions data included in *Fraud and Error in the Benefits System* estimates. Figure 2 is supported by the table in Figure 10 in Annex 1 to this report.

12. Whilst there is a small ongoing reduction in the percentage overpayment, the Department recognises that it is not statistically significant, and does not reflect a step change in overpayments arising from increased activity to address fraud and error. Underpayments are at the highest level to date, although the increase from the previous year is also not statistically significant.

Fraud and error measurement

13. The Department analyses over and underpayments into three categories, which it defines as follows:

- **Official error,** which arises when a benefit is paid incorrectly due to inaction, delay or a mistaken assessment by the Department, a local authority or HM Revenue and Customs;

- **Claimant error,** which occurs when claimants make inadvertent mistakes with no fraudulent intent; and

- **Fraud,** which arises when claimants deliberately seek to mislead the Department or local authorities which administer benefits on the Department's behalf to claim money to which they are not entitled.

14. The Department has reported the estimated over and underpayments against each category in Note 22 to the accounts. Caution should be exercised when examining the estimates for trends, due to the measurement uncertainties explained in Note 22. In particular, estimated levels of fraud and error in some benefits are a number of years old. For example, Disability Living Allowance, which accounted for £13.3 billion of expenditure in 2015-16, has not been measured for fraud and error since 2004-05. The absence of up-to-date information on error rates in such a large benefit stream creates a risk that the Department is making decisions based on out-of-date measurements. Furthermore, some lower value benefits have never undergone a measurement exercise. The levels of fraud and error in these benefits are calculated through proxy rates from other measured benefits, either continuously measured or historically measured as set out at **Figure 3** below.

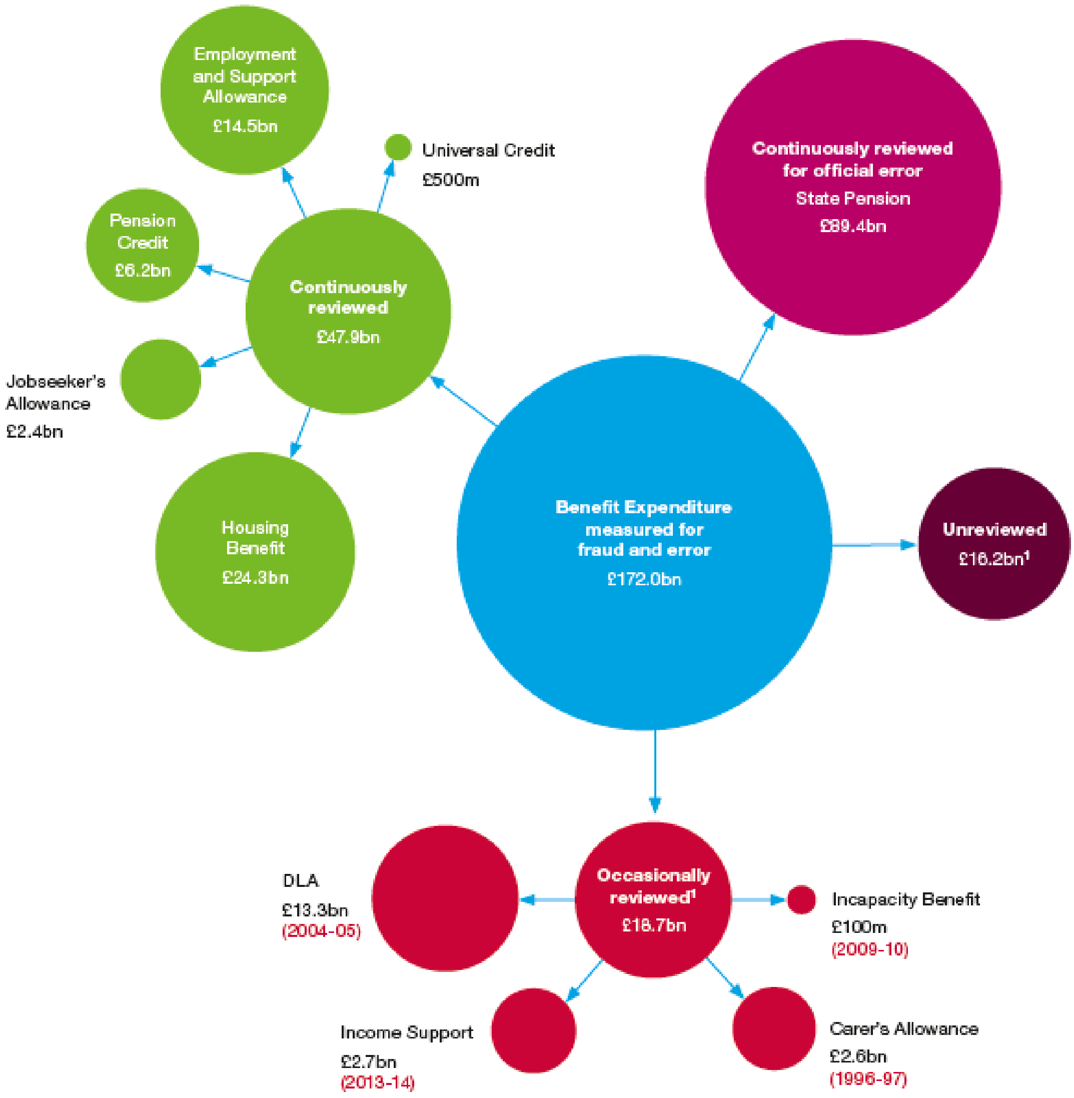
15. The Department has reported against a new "net loss indicator" in its Annual Report, and also announced a new "net loss target" of 1.6% by 2017-18. The Department intends for these measures to demonstrate the loss to the public purse from overpayments not recovered. Both of these measures look at estimated overpayments made in year, less actual and estimated benefit recoveries in year, regardless of the age of the overpayment recovered. Estimated money recovered in 2015-16 of £980 million comprises in-year figures for DWP directly administered benefits (£350 million) plus estimated figures for Housing Benefit administered by local authorities (£630 million). Underpayments are not considered. The Department has reported unaudited data on its "net loss indicator" going back to 2010-11.

16. Net loss is a relevant indicator of the ultimate loss to the public purse from overpayments of benefits. However it is not a substitute for the gross value of over and underpayments as the prime indicator that benefit payments are made at a rate specified in the legislation in accordance with Parliament's intentions and are regular. There are also practical difficulties in developing a net loss indicator. At present, recoveries in year do not necessarily relate to overpayments in year, and so a simple net loss figure does not indicate the accuracy of benefit payments made in year. For example the gross overpayment of Income Support in 2015-16 was estimated to be £100 million, but delays in recovering overpayments mean that the estimated recoveries were £120 million[4] . I will review and report on the Department's progress in developing its net loss measure in future years, alongside my commentary on over and underpayments, and regularity.

4 Overpayments and recoveries by benefit are set out in Table 13 of the *Fraud and Error in the Benefit System 2015-16 Preliminary Estimates* supporting tables.

Figure 3

Analysis of estimated 2015-16 benefit expenditure by measurement approach



NOTES

1. For occasionally reviewed benefits, the above figure also includes dates of their last measurement.
2. There are a number of unreviewed benefits, including Attendance Allowance, Bereavement Benefits and Maternity Allowance and others. More details on unreviewed benefits can be found at Department for Work and Pensions, *Fraud and Error in the Benefit System: Preliminary 2015-16 Background Information and Methodology*.
3. Benefit expenditure of £172.0bn represents the latest available estimated expenditure for 2015-16 at the time the Department produced the fraud and error estimates. Figures may not sum due to rounding. The Department's analysis of *Spending on State Pension and benefits* of £173.4bn on page 46 reflects the outturn as reflected in the Statement of Parliamentary Supply within the DWP Annual Report and Accounts 2015-16.

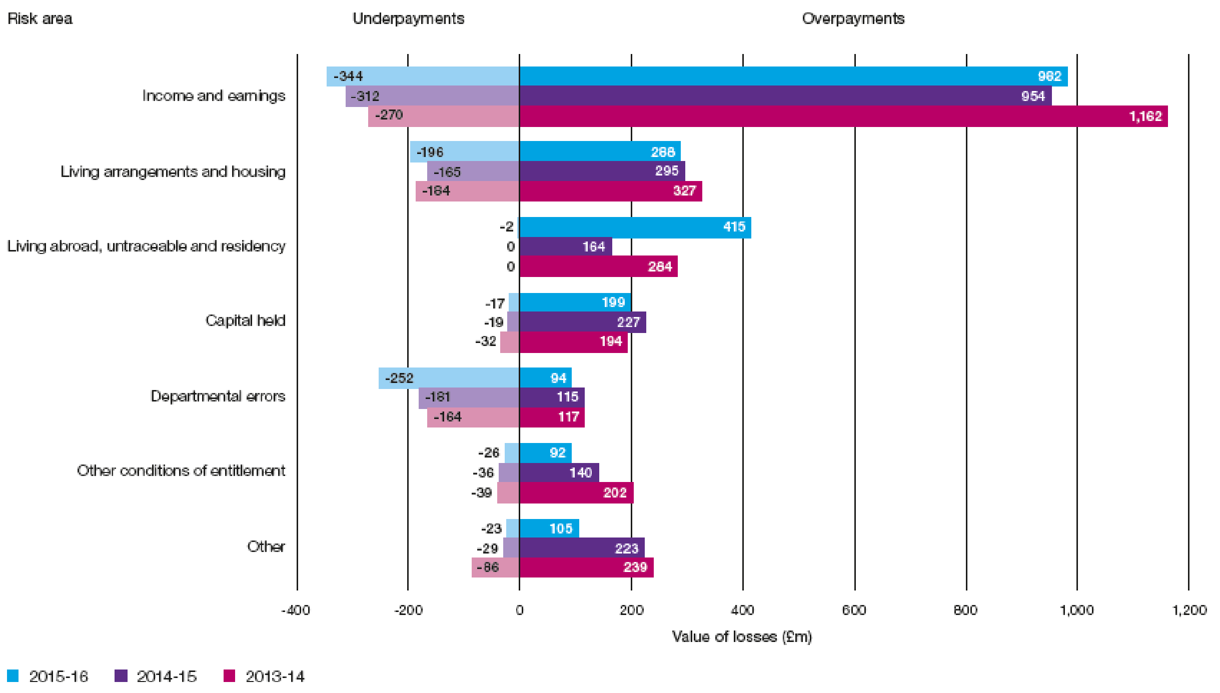
Source: National Audit Office analysis of Department for Work and Pensions data included in *Fraud and Error in the Benefits System: Preliminary 2015-16*

Over and underpayment fraud and error by risk area

17. Our previous work with the Department identified the major causes of over and underpayments. A breakdown of these risk areas for the continuously measured benefits in the 2015-16 preliminary estimates is set out in **Figure 4** below. This shows that income and earnings remains the largest cause of both over and underpayments.

Figure 4

Where over and underpayments arise – analysis of attributes of fraud and error in continually measured benefits



NOTES

1. DWP is able to assess the causes of over and underpayments on its continuously measured benefits: Jobseeker's Allowance, Pension Credit, Housing Benefit, Universal Credit and Employment and Support Allowance. It has not undertaken this analysis on the benefits which are not continuously measured.
2. Note that 'Loss of claimant contact' has been categorised as a separate cause of loss for the first time in the 2015-16 preliminary statistics. We have included this in 'Living abroad, untraceable and residency' for comparison purposes.
3. The Department first published its analysis of attributes of fraud and error for total continuously measured benefits in 2013-14.

Source: National Audit Office analysis of Department for Work and Pensions, Fraud and Error in the Benefit System: Preliminary 2015-16 Estimates, Department for Work and Pensions, Fraud and Error in the Benefit System: Final 2014-15 Estimates and Department for Work and Pensions, Fraud and Error in the Benefit System: Final 2013-14 Estimates.

The Department's progress in reducing fraud and error

18. My report *Fraud and Error Stocktake* (HC267, 2015-16) reviewed the progress made by HMRC and DWP in reducing error and fraud in Personal Tax Credits and welfare benefits. The Departments needed to build on recent efforts to develop a more integrated and systematic response to preventing error and fraud, and to track the impact of initiatives through to outcomes to achieve sustained and continuing reductions in fraud and error.

19. I identified the critical factors to assess the Departments' responses to fraud and error. Starting with clear

strategies at a benefit level based on an understanding of the causes of error and fraud, supported by appropriate governance, controls and interventions to reduce fraud and error can be designed into the framework for the credit or benefit, effectively implemented, and the impact evaluated. Over time this understanding of the causes of fraud and error, with the evaluation of the efficacy of controls and interventions by benefit and cause of loss, will allow Departments to identify a lowest feasible level of fraud and error by benefit.

20. Since I reported in 2015, the Department has made some progress in tackling fraud and error. I have reviewed the Department's response to reducing error and fraud, considering the strategy, design, implementation and evaluation of fraud and error activities.

21. The Department's new Fraud, Error and Debt Strategy 2015-2020 (FED Strategy) sets out its strategic vision to:

    - minimise loss to the taxpayer as a result of fraud, error and debt across all benefits;
    - support the Department's transition to welfare reform, recognising the potential impact of fundamental change on levels of fraud, error and debt; and
    - identify and manage new and emerging fraud, error and debt risks as new benefits and credits and new ways of working are implemented.

22. The FED Strategy emphasises the complexity of the challenge. The Department has set out five pillars of its long-term strategy which are: prevention; claimant responsibility; financial control; business capability; and data analytics, intelligence and insight.

23. Underpinning the overarching FED Strategy the Department has developed benefit specific strategies covering some 80% of the monetary value of fraud and error identified. In addition to the individual strategies the Department has also developed cross cutting work aimed at reducing and preventing fraud and error loss across all benefits. The analysis undertaken by the Department in development of the benefit specific strategies and cross cutting work has identified priority activity areas, which account for around 90% of the monetary value of fraud and error identified. These strategies and priority areas focus on the particular characteristics of each benefit and target the main causes of loss (**Figure 5**).

Figure 5

Benefit specific and cross cutting strategies

Benefit Specific	**Cross Cutting**
Pension Credit	Undeclared earnings
Housing Benefit	Capital
Universal Credit	Living together
Employment and Support Allowance	Household composition
Jobseeker's Allowance	Other income, for example occupational and private pensions
Personal Independence Payment	
Carer's Allowance	
Income Support	

Source: National Audit Office analysis of Department for Work and Pensions data

24. In its 2015-16 Annual Report the Department highlights work that has been undertaken to look at the wider use of Real Time Information, to consider exploitation of data sources to tackle losses arising from undeclared capital, income and household formation. Alongside this work, the Department's Analytics and Intelligence hub - created to support Universal Credit but now undertaking analysis across benefits - is forecasting and modelling fraud and error and the impact of activities making use of data from other government departments which may indicate changes in circumstances affecting benefit claims.

25. This more strategic approach to fraud and error is still at an early stage and there has been limited opportunity so far for the Department to implement and evaluate the operational impact of the planned interventions in the benefit streams on which the Department has decided to focus activity. However, the building blocks are in place to better understand fraud and error and begin to consider what the lowest feasible level of fraud and error by benefit could be, and how to achieve that.

26. An overview of the Department's approach to tackling fraud and error in Pension Credit, where work is more advanced, is set out in the case study below as an example of how the FED Strategy is being delivered at a benefit level.

Case study - Pension Credit

27. A summary of the Department's approach to and progress in tackling fraud and error in Pension Credit - considering strategy, design, implementation and evaluation of fraud and error activities - is shown in **Figure 6**. Overall, the Department has developed a more coherent strategic approach, increasing its focus on the main risk areas and developing a broader response to tackling the causes of fraud and error. It is trialling new initiatives and system changes to detect more overpayments and improve accuracy of processing. A number of these changes are still in development. This work needs to continue and become fully embedded across Pension Credit processes in order for the Department to realise a step change in performance in the future. Paragraphs 28-33 provide an overview of the Department's progress.

Figure 6

DWP's progress in reducing fraud and error within Pension Credit

Establishing clear strategies and governance	**New benefit strategy** – Introduced a Pension Credit fraud and error strategy (2015–2018) which balances 'detect' interventions with system changes to 'prevent' fraud and error from occurring. **Prioritised activity** – Targeting risk areas, based on analysis of the causes of fraud and error. Income risk prioritised. **Strengthened governance arrangements** – The Pension Credit Oversight Group is responsible for providing a joined-up approach across the department and implementing the strategy. **New fraud and error initiatives** – New initiatives and system changes have to compete with other business priorities and may be limited by operational capacity.
Designing controls into the way departments work	**Policy changes** – Have made some policy changes which help to reduce complexity of administering Pension Credit, eg removal of Assessed Income Periods. **Implications of policy design** – Fraud and error implications have not always been considered fully in policy/scheme design – on PC and in other benefits. Other policy changes will increase complexity of administering Pension Credit. **Use of RTI data** – Will strengthen processing controls for income risk (for new claims and reviews). Also trialling other system changes, eg scripting and piloting new checks against other DWP data. **A focus on accuracy of processing, but still largely reliant on information provided by claimants** – Initiatives to improve compliance with critical checks and process claims accurately. But the ability to independently verify claimant information across risk areas is still relatively limited (ie other than using RTI data to check income).
Implementing controls and interventions effectively	**Operational work** – Focus on clearing operational backlogs. Pension Centre performance: process compliance: 66% against target of 90%; meeting target for critical process points; missing other operational targets. **Post-payment interventions** – Used RTI data to increase the volume of post-payment checks, focusing on undeclared income and occupational pensions. Seeking new data sources, such as banking data. **Progress with data matching** – Challenges in processing the volume of discrepancies identified by data matching. **Increasing focus on other risks** – Plans to increase activity for abroad and capital risks. A response for tackling the living together risk is some way off.
Measuring and evaluating performance	**Estimates** – Fraud and error statistics published twice a year. Provide best available estimate of monetary value of fraud and error. **Deeper understanding of fraud and error** – Increasing use of root-cause analysis to develop deeper understanding of nature and cause of fraud and error. **Operational success measures** – Introducing new measures to monitor performance. **Assessment of potential to reduce fraud and error** – DWP is starting to consider whether it is possible to understand the lowest feasible level of fraud and error in Pension Credit.

Source: National Audit Office analysis of Department for Work and Pensions data

28. The Department has strengthened its management of the fraud and error response in Pension Credit. It has developed a new strategy, based on a better understanding of the causes of fraud and error, which sets out its approach for the major risk areas. It has also improved governance arrangements to manage the fraud and error interventions and implement the new strategy.

29. The Department has prioritised the income risk – which was the largest cause of fraud and error – by checking the information it holds against HM Revenue and Customs' Real Time Information (RTI). It conducted 36,000 reviews and identified £7 million of overpayments in 2015-16. It is now testing how to use RTI data to verify claimants' earnings and occupational pensions when processing new claims and

performing reviews. RTI data will help to improve the accuracy of processing and the Department forecasts savings of £856 million over the next 10 years.

30. The Department has made changes to Pension Credit rules to reduce complexity and introduced new checks to strengthen controls. However, at the same time, other policy changes in Pension Credit and on other benefits will make it more complex to administer in the future. These changes - introduced to achieve other policy objectives - present new fraud and error risks. The Department will monitor the operational impact of changes and consider the need for new interventions or system changes.

31. The Department has to balance business priorities on productivity, customer service and control. The Pensions Directorate has increased its focus on fraud and error, increasing the emphasis on the accuracy of processing. The Department is also introducing a new control framework and quality checking arrangements to improve consistency of checks.

32. The Department's use of data matching and risk rules for periodic and in payment interventions has identified a very large number of Pension Credit awards where there appears to be a change in claimant circumstances. However, from cases worked to date it is clear that a data discrepancy does not necessarily indicate that a change in circumstance has occurred and there is fraud or error present. The Department has identified a plan to complete outstanding periodic reviews by December, and is refocusing its strategy and risk rules, learning from experience to date, to embed future data matching interventions as part of business as usual. As about 60% of Pension Credit fraud and error occurs while the claim is in payment, it is important that the Department maintains an effective response to identifying where a claimants circumstances have changed.

33. The Department is trialling a number of new initiatives to target risk areas; for example, exploring the use of data from care homes, on people leaving the UK and from banks. It is also developing a broader cross-benefit approach to tackling the living together risk, exploring possible policy changes and partnerships with private sector companies. But these initiatives are not yet fully operational as it takes time to design, trial and introduce changes into business processes. As a result, the Department is still seeking to establish an effective approach to tackling capital, living together and abroad risks, which accounted for £192 million of fraud and error in Pension Credit in 2015-16.

34. The Department's provisional 2015-16 estimates showed that fraud and error overpayments in Pension Credit were 5.6% (£350 million), an increase from 4.6% in 2014-15 (£310 million). The Department has achieved a sustained reduction in fraud and error for the income risk (**Figure 7**) using RTI on earnings and pensions; increases in abroad fraud, household formation and loss of claimant contact will be further investigated to understand how best to achieve a sustainable reduction in these causes of fraud and error and the overall rate of Pension Credit fraud and error.

35. The Department's provisional 2015-16 estimates showed that fraud and error underpayments in Pension Credit were 2.3% (£140 million), an increase from 1.7% in 2014-15 (£110 million). As for other benefits, the Department has not set a target for Pension Credit underpayments and rejected recommendations from the Public Accounts Committee to do so.

Figure 7

Pension Credit fraud and error overpayments since 2012-13

	2012-13 (final)	**2013-14 (final)**	**2014-15 (final)**	**2015-16 (provisional)**
Fraud and error overpayments				
Percentage	6.4%	5.9%	4.6%	5.6%
£million	£490m	£430m	£310m	£350m
By risk type				
Income	£166m	£163m	£95m	£93m
Living together	£60m	£44m	£48m	£75m
Abroad	£85m	£69m	£35m	£59m
Capital	£65m	£63m	£54m	£58m
All other risk types	£114m	£91m	£78m	£65m

NOTES

1. Columns may not sum due to rounding.
2. Figure 7 shows Pension Credit fraud and error overpayments since 2012-13 to show the progress made since benchmarking work carried out by the Department in respect of Pension Credit.

Source: Department for Work and Pensions, *Fraud and Error in the Benefit System* published statistics – final statistics for 2012-13, 2013-14 and 2014-15; provisional statistics for 2015-16.

Universal Credit

36. Universal Credit (UC) is expected to replace 6 means-tested benefits for working-age households by March 2021. These are Income-based Jobseeker’s Allowance, Income-related Employment and Support Allowance, Income Support, Working Tax Credit, Child Tax Credit and Housing Benefit for working age claimants. **Figure 8** shows the roll out to date and the Department’s current migration plan to 2021.

Figure 8

Roll out of Universal Credit to date and future migration plans

Apr 2013	Jun 2014	Nov 2014	Nov 2014	Feb 2015	Jan 2016
UC Live Service launches, taking new claims for single jobseekers in the North West.	UC Live Service pilot extended to job-seeking couples, and singles claiming Housing Benefit.	UC Live Service rolled out to some new claims for families with children.	UC Full Service (UCFS) pilot starts in Sutton Jobcentre in South London.	Nationwide expansion of UC Live Service starts for new claims for single jobseekers.	UC Full Service (UCFS) rolls out to 3 further pilot jobcentres in London.

May–Jul 2016	Aug–Sep 2016	Oct–Dec 2016	Feb 2017	...	Mar 2021
UC Full Service (UCFS) rolled out to 5 further jobcentres per month for all new claims plus existing DWP benefit or Tax Credit changes that trigger a UCFS claim.	Planned pause to review the UC Full Service (UCFS) rollout to date.	UC Full Service (UCFS) further expansion to 5–10 jobcentres each month for new claims and changes that trigger a UCFS claim.	UCFS roll out expanded to 50 new jobcentres per month with planned completion by June 2018.	Migration from DWP legacy benefits, Personal Tax Credits (HMRC) and UC Live Service claims continues.	Migration from DWP legacy benefits and Personal Tax Credits (HMRC) completed.

Source: National Audit Office analysis of Department for Work and Pensions data

37. The Department started taking new UC claims for single jobseekers in April 2013. UC is currently administered across two systems known as Live Service and Universal Credit Full Service (UCFS). Live Service is currently rolled out nationally for new single claimants. UCFS is the Department's new digital solution for administering UC for all claimants where pilot work started in a south London jobcentre in November 2014 before being extended to a total of 4 jobcentres in London in 2015-16. The Department is slowly expanding UCFS to a handful of jobcentres each month from May 2016. Claimants on existing benefits or Personal Tax Credits in those areas with a change in circumstances will also trigger a new claim to Universal Credit via UCFS. From February 2017 the Department plans that UCFS will be rolled out to 50 further jobcentres a month - a process scheduled to be completed in June 2018. Migration of remaining legacy benefit claimants to Universal Credit is then expected to take place until March 2021. The timetable for migration of UC Live Service claims to UCFS is to be confirmed.

38. Note 5a to the Department's accounts shows that the expenditure on Universal Credit in 2015-16 was £488 million of which circa £9 million was administered on UCFS. The Department's plan is that existing benefit expenditure of £38.4 billion on other DWP benefits[5] plus existing Personal Tax Credit expenditure[6] of £28.2 billion will migrate over time to Universal Credit.

Fraud and error in Universal Credit

39. The Department has estimated overpayments due to fraud and error in Universal Credit Live Service for the first time in 2015-16, at a level of 7.3 % (£36 million) of forecast[7] benefit expenditure of £500 million. Estimated underpayments due to fraud and error in 2015-16 are 2.6 % (£13 million).

[5] Universal Credit will replace means-tested expenditure currently shown in Note 5a as Amounts paid to Local Authorities (Housing Benefit), income-related Employment and Support Allowance, Income Support and income-based Jobseeker's Allowance.
[6] Personal Tax Credit expenditure in Note 4.1 to HM Revenue & Customs Resource Accounts 2015-16.
[7] According to Note 22 to the accounts, the total expenditure figures quoted are the latest estimated expenditure figures available for 2015-16 at the time the Department produced the fraud and error estimates.

40. These estimates are based upon a sample of some of the earliest claims operating on the UC Live Service, covering the period October 2014 to September 2015. The majority of these claims started out as the equivalent of a simple Jobseeker's Allowance (JSA) claim, such as a single person without children or housing costs. Single person claimant circumstances can change over time so that Universal Credit cases that started as relatively simple, with the addition of employment and housing costs, become more complex to administer. During the measurement period the UC caseload increased from 17,000 to 118,000. The Department has compared the level of UC fraud and error with Jobseeker's Allowance as this case load is most reflective of early UC cases. In 2015-16 estimated JSA overpayments due to fraud and error equates to 5.0 % of JSA benefit expenditure, and estimated underpayments are 0.8 %. The Department notes that comparison of these figures needs to be treated with caution as this is not a like-for-like comparison and the UC caseload is becoming more complex as it rolls out to all claimants.

41. The Department is still developing its methodology to assess fraud and error in UC. Robust measurement indicators will be necessary to gauge progress in reducing fraud and error with Universal Credit. Universal Credit Full Service has not yet been part of the fraud and error measurement and it is unclear when this will be measured, and therefore the causes and estimated level of fraud and error, on this platform are unknown.

42. The Department is developing a UC Fraud, Error and Debt strategy which reflects its understanding of fraud and error risks in the legacy benefits which UC will replace. The Department has considered how the design of UCFS could mitigate against known risks; the challenge going forward is to design the operational level interventions required for the Department to meet the aims of the fraud and error strategy it has set itself on both UC Live Service and UCFS. The Department will be able to use the insight provided by the initial fraud and error measurement estimate to re-evaluate the risks targeted and the appropriate interventions as UC rolls out.

43. In 2016 Personal Tax Credit debt will begin to transfer to DWP as claimants claim Universal Credit. The Department is working closely with HMRC to define the process to transfer the gross value for recovery. DWP and HMRC have discussed the transfer of assets with HM Treasury to ensure that they are accounted for appropriately. The value of debt considered to transfer should also be carefully considered. HMRC considers there to be £7.1 billion of Personal Tax Credit debt, but impairs this to £2.9 billion on basis of recoverability. The Department currently assumes a significant value of Personal Tax Credit debt will transfer to be collected by the Department, and offset fraud and error overpayments to meet the 2017-18 net target (for benefits and Personal Tax Credits) of 1.6% overpayments due to fraud and error. The Department assumes that a higher level of Personal Tax Credit debt will be recoverable due to the greater recovery powers of DWP, when compared with the £2.9 billion of impaired debt disclosed in the HMRC 2015-16 Resource Accounts. As debt for the first 33,000 Personal Tax Credits claims already migrated to UC transfers to the Department during 2016-17, it will be important that the Department reflects on its experience and revises assumptions of recoverability and value to be recovered accordingly.

Conclusion

44. I have again qualified my regularity opinion due to material levels of fraud and error in benefit expenditure, excluding State Pension. State Pension continues to demonstrate a very low level of fraud and error, while overpayments in other measured benefits decreased slightly to 3.6% but underpayments rose to a highest ever level of 1.8%. The headline level of fraud and error overpayments across all benefits of 1.8% indicates that a step change and sustained reduction in fraud and error has not been realised.

45. The Department has significantly refined its approach to fraud and error with its new overarching FED

Strategy setting out responses more informed by risks, and approaches identified for individual benefits and cross cutting risks. However, the design and implementation of responses are at a very early stage, with a number of options being piloted and further explored to assess viability and effectiveness.

46. It remains essential that DWP continues to address fraud and error given overpayments increase costs to taxpayers and reduce public resources available for other purposes, while underpayments mean households are not getting the support they are entitled to. The Department should continue to enhance its understanding of how and why over and underpayments arise within each benefit. Evaluation of the effectiveness of interventions available by risk and benefit should then be used to identify and bring down fraud and error to the lowest level feasible for each benefit stream.

47. One challenge in assessing the effectiveness of interventions stems from a lack of current data on fraud and error for many benefits. I welcome the Department's plan to measure Personal Independence Payments for the first time in 2016-17, which will provide an up to date measure of the level of fraud and error as the predecessor benefit, Disability Living Allowance has not been measured since 2004-05. The Department will need up to date measurements of fraud and error for each benefit that it has identified in its overarching FED Strategy for priority action to understand the impact of its design and implementation of controls and interventions. This will be particularly important to establish baselines for those benefits not measured for some time, and the new UC Full Service, and the Department should establish a plan to achieve this.

48. The publication of the first fraud and error estimates for Universal Credit Live Service will provide vital information to develop the Department's UC FED Strategy further, including the approach to FED within the roll out of the new Universal Credit Full Service, where the causes and level of fraud and error to date are unknown. To put its UC FED Strategy into effect, the Department needs to develop and implement controls to tackle the inflow of fraud and error to UC claims, (as well as removing the fraud and error already identified within UC claims). It will require continued commitment and focus on behalf of the whole Department, including operational and strategy teams to implement and fully embed these initiatives on a sustainable basis if the Department is to reduce the level of fraud and error in UC to the lowest feasible level.

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Annex 1

Overview of fraud and error estimates

1 The Department publishes its estimate of monetary value of fraud and error in the benefits system twice a year, normally in May and November. The Department has used the May 2016 publication[8], the latest estimates available, as the source for its disclosures on incorrect payments in note 22 to its 2015-16 accounts.

2 **Figure 9** shows the estimated overall benefit over and underpayments rates (the 'mid-points') and their associated upper and lower limits from 2006-07 to 2015-16 as set out in the *Fraud and Error in the Benefit System* publications.

Figure 9

Estimated gross incorrect payments

	2006-07	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Overpayments mid-point	2.2%	2.0%	2.2%	2.2%	2.1%	2.1%	2.1%	2.1%	1.9%	1.8%
Overpayments upper limit	2.6%	2.4%	2.5%	2.6%	2.5%	2.5%	2.5%	2.4%	2.2%	2.2%
Overpayments lower limit	1.9%	1.7%	1.9%	2.0%	1.8%	1.8%	1.8%	1.8%	1.6%	1.5%
Underpayments mid point	0.8%	0.9%	0.9%	0.9%	0.8%	0.8%	0.9%	0.9%	0.9%	1.0%
Underpayments upper limit	1.1%	1.2%	1.2%	1.2%	1.1%	1.1%	1.2%	1.2%	1.1%	1.3%
Underpayments lower limit	0.6%	0.6%	0.6%	0.7%	0.6%	0.6%	0.7%	0.7%	0.6%	0.8%

Source: NAO analysis of DWP data.

NOTES

1. All rates included in the above table are from the Department for Work and Pensions, Fraud and Error in the Benefit System Final published statistics, with the exception of 2015-16 and 2014-15 rates which use the preliminary results as reported in Note 22 to the 2015-16 DWP Annual Report and Accounts, which were the latest available at the time of reporting.
2. The Department for Work and Pensions, Fraud and Error in the Benefit System Final 2014-15 published statistics showed estimated overpayments of 1.8% (between 2.1% and 1.5%) and underpayments of 0.9% (between 1.2% and 0.7%)

[8] Fraud and Error in the Benefits System 2015-16 Preliminary estimates

3 **Figure 10** shows the estimated total over and underpayments rates for all benefits, State Pension and all benefits excluding State Pension from 2006-07 to 2015-16.

Figure 10

Estimated over and under payments in benefits, benefits excluding State Pension and in State Pension

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
All overpayments	2.2%	2.0%	2.2%	2.2%	2.1%	2.1%	2.1%	2.1%	1.9%	1.8%
Benefits excl. State Pension overpayments	3.8%	3.7%	3.8%	4.0%	3.7%	3.9%	3.9%	4.0%	3.7%	3.6%
State Pension overpayments	0.2%	0.2%	0.1%	0.1%	0.1%	0.2%	0.1%	0.2%	0.2%	0.1%
All underpayments	0.8%	0.9%	0.9%	0.9%	0.8%	0.8%	0.9%	0.9%	0.9%	1.0%
Benefits excl. State Pension underpayments	1.4%	1.4%	1.4%	1.5%	1.3%	1.4%	1.7%	1.7%	1.6%	1.8%
State Pension underpayments	0.2%	0.3%	0.3%	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%	0.3%

Source: NAO analysis of DWP data

NOTES

All rates included in the above table are from the Department for Work and Pensions, Fraud and Error in the Benefit System Final published statistics, with the exception of 2015-16 and 2014-15 rates which use the preliminary results as reported in Note 22 to the 2015-16 DWP Annual Report and Accounts, which were the latest available at the time of reporting.

Annex 2

The Department's response to the Committee of Public Accounts (PAC) Fraud and Error Stocktake recommendations

1 Following the September 2015 session on the *Fraud and Error Stocktake* report (HC 267 2015-16), the Committee of Public Accounts (PAC) made a number of recommendations to both DWP and HMRC to address the findings of the report. Progress on the recommendations for DWP is set out in **Figure 11** below.

Figure 11

Committee of Public Accounts recommendations, Treasury Minute responses and developments since

PAC Recommendation	DWP response in the Treasury Minute	Developments since:
DWP has not met its overall target for reducing fraud and error, despite being helped by changes in the mix of benefits. DWP should build on its development of individual strategies by publishing targets for reducing fraud and error for each major benefit, having assessed what level of further reductions is achievable, and set out clear operational plans to deliver this.	The Government did not accept this recommendation, stating: multiple targets would dilute the overall view of the Department's performance and could not be applied to those benefits that are no longer continuously measured for fraud and error; it will explore the value in disaggregating the global view; any target for 2018 should be provisional, pending introduction of UC; and the Department favours a net fraud and error target.	DWP has published a new 'global' target to reduce fraud and error across benefit expenditure. It has set a target for net losses in the welfare system for 2017-18, including DWP benefits and HMRC Personal Tax Credits. The target is a net loss of 1.6% of total benefit expenditure. DWP continues to state that fraud and error targets for individual benefits would not be beneficial. It is, though, starting to assess its performance at a more disaggregated level – pension age, disability, working age (legacy) benefits and UC. DWP has not yet established the lowest feasible level of fraud and error.
The likely impact of welfare reforms on fraud and error is promising, but the reforms will not solve all the problems of tackling erroneous benefit payments. DWP must set out how it will target the causes of fraud and error that will remain after the introduction of welfare reforms, and update the Committee each year with clear forward projections for fraud and error, based on the latest information available, so that PAC can assess performance. The departments should have a strategy in place to identify and minimise the key risks of fraud and error arising from implementing and operating major reforms, including setting targets for what levels of fraud and error will arise.	The Government accepted this recommendation, stating: it will develop an overarching strategic approach covering legacy benefits and welfare reform for 2015-20, focusing on main causes of fraud and error; it will maintain a rolling 5 year fraud and error forecast which will be monitored against the published annual statistics; and it already considers the risks of fraud and error arising from major reforms, and during the conceptual design of new initiatives.	DWP has developed a new strategy for fraud, error and debt covering 2015-20. This focuses on the main causes of overpayments in legacy benefits. DWP has developed benefit specific strategies which focus on the main causes of loss. It is developing a strategy for UC. DWP is in the process of establishing its approach to targeting the causes of fraud and error after the introduction of UC. DWP has not established a rolling 5 year fraud and error forecast.
The departments have made little progress in preventing fraud and error over and underpayments occurring. Both departments should improve their understanding of the reasons why claimants make mistakes, and use this to develop stronger preventative measures.	The Government accepted this recommendation, stating: it already takes action to ensure there is a greater understanding of why claimants make mistakes, including root cause analysis and engagement with the third sector. These support the continual	DWP has made greater use of root cause analysis to assess the reasons for fraud and error. But the Treasury Minute response offered no new commitment to improve understanding of claimant behaviours to design stronger preventative measures. DWP has not set a target for underpayments.

	development of stronger preventative measures.	
Both departments should set targets for reducing underpayments, in order to galvanise efforts to tackle this neglected issue.	The Government did not accept this recommendation, stating: all fraud and error measures act to ensure payments are correct and the global underpayments level is stable; and they will tackle the causes of underpayments as part of the wider approach to ensure claimants are paid the amount that they are entitled to.	The published preliminary estimates of fraud and error for 2015-16 show that underpayments were 1% of total benefit expenditure (£1.8 billion). This is the highest recorded rate (up from 0.9% / £1.5 billion in 2014-15). .
Both Departments should report back to the Committee in 6 months on progress they have made in relation to initiatives exploiting third party data.	The Government accepted this recommendation, stating: they already use data to identify and deliver improvements in fraud and error.	DWP continues to seek new data sources to strengthen its response, including banking data, passenger information and care home scans. It is also exploring the potential to work more closely with private sector companies.
DWP does not understand the deterrent effect of the penalties it applies. DWP should assess the impact of its enforcement approach, including modelling and reviewing evidence on the deterrence effects of its penalty regime, to establish how effectiveness could be improved.	The Department accepted this recommendation, stating: it will review its use of civil penalties, in line with the commitment given at the time of the Welfare Reform Bill. Evaluation work should be completed by Spring 2016. while the deterrence effect cannot be directly measured, DWP is planning a longer term analysis to understand the behaviour, perceptions and awareness of its penalties policy. This will take into account the toughening of penalties in the Welfare Reform Act 2012; and changes to the penalty regime to need sufficient time to 'bed in'.	The National Audit Office is undertaking a value for money study on DWP's use of sanctions. Although not directly examining penalties the NAO is reviewing the Department's deterrence effect and changes made in the Welfare Reform Act 2012 and how they fit with the intended aims and outcomes of DWP's wider working age employment policy; whether sanctions are being implemented in line with policy; and whether use of sanctions is leading to the intended outcomes for claimants

Annex 3

DWP's progress in addressing the 2014 Housing Benefit fraud and error report recommendations

1 Following the October 2014 session on the *Housing Benefit fraud and error* report (HC 720 2014-15), the Committee of Public Accounts (PAC) made a number of recommendations to DWP to address the findings of the report. Progress on the recommendations are set out in **Figure 12** below.

Figure 12

Committee of Public Accounts recommendations, Treasury Minute responses and developments since

PAC Recommendation	DWP Response in the Treasury Minute	Developments since
The department should review how it allocates money and resources to tackling Housing Benefit fraud and error. For each of the main sources of fraud and error, it should set out how, and by how much, its fraud and error initiatives aim to reduce Housing Benefit overpayments.	The department agreed with the recommendation. The department noted several existing initiatives specifically to reduce Housing Benefit overpayments: • Real Time Information; • an automated system to notify local authorities of changes identified by the department and HM Revenue and Customs that may affect Housing Benefit entitlement;; and • FERIS. The department stated that it would be publishing the next iteration of its strategic approach to tackling Housing Benefit fraud and error this year.	The Department has produced a Housing Benefit specific strategy and underpinning activity plan. This activity plan includes all interventions that are or are intended to be implemented and next to each an expected fraud and error overpayment saving.
The department must report back to the Committee within 6 months of this report on what measures it has introduced specifically to target underpayments and encourage legitimate take-up.	The department agreed with the recommendation. To support Local Authorities' responsibilities to publicise Housing Benefit, the department makes information available in many locations.. This helps ensure that people are aware of their entitlement to benefits and how to claim. The department utilises data on claimants to ensure Housing Benefit claims are accurate, sharing information with Local Authorities via the Automated Transfer to Local Authority Systems (ATLAS). This helps Local Authorities update their data and addresses over and underpayments. The department also shares Real Time Information with Local Authorities, ensuring they have access to up to date data on claimant earnings and occupational pensions. The department is currently undertaking a review of initiatives to target underpayments and will write separately to the Committee by summer 2015.	While some of the interventions in place have the effect of reducing underpayments, the Department's main focus remains reducing overpayments. Some internal targets are based upon AME expenditure savings alone, targets that do not incentivise a reduction in underpayments. The NAO has not seen a significant change in how underpayments are tackled by the Department.
The department should produce a proposal for how to strengthen incentives so that local authorities tackle Housing Benefit fraud and error more effectively. It	The department agreed with the recommendation. In November 2014, the Fraud and Error Reduction Incentive Scheme (FERIS) was	While some interventions, such as FERIS, have created greater incentive for Local Authorities to identify more overpayments of Housing Benefit,

should work with local authorities and gain approval from the Cabinet Office's Fraud Error and Debt Taskforce before sharing the proposal with us within 6 months.	launched. FERIS offers a financial reward to Local Authorities that find additional reductions to Housing Benefit entitlement due to fraud and error. It will impact throughout 2015-16. In addition, the department has launched a Performance Improvement Fund seeking innovative ideas from Local Authorities to reduce losses due to fraud and error. The department has commissioned a review of the subsidy regime, which will include changes required to strengthen incentives for Local Authorities to reduce fraud and error. This review will also look at changes required to improve the effectiveness of the subsidy regime.	incentives in some areas remain imperfect. For example, the subsidy process in place for funding Local Authorities for Housing Benefit payments, still creates the position where, for some Local Authorities, making and recovering overpayments can be more beneficial than not making overpayments at all.
The department must provide the Committee with a full analysis of options to identify whether there is a more cost-effective way of producing local estimates of the level of fraud and error, and how it plans to assess the relative performance of local authorities in reducing Housing Benefit overpayments.	The department agreed with the recommendation. The department will provide its analysis of the possibilities of producing cost-effective local estimates of the level of Housing Benefit fraud and error. This will include exploring the options for undertaking further sampling of the caseload, as well as options for making greater use of the data sample already collected at a national level. The department will assess the pros and cons and value for money of these options before reporting back to the Committee.	The Department has begun to collect and analyse more data through Caseload Management Information (CMI) which seeks to assess the level of fraud and error at a Local Authority level and is also being used to benchmark Local Authorities to inform certain interventions.
The department must demonstrate it has a convincing response to tackle Housing Benefit fraud and error before Universal Credit is implemented and the use of real-time information is automated. It should report to the Committee within months with a clear plan to tackle the major sources of loss on Housing Benefit. It should also set out what savings it has achieved across benefits against its 1.7% target, and which initiatives have realised these savings.	The department agreed with the recommendation. Real Time Information (RTI) has already been introduced in Housing Benefit to identify cases where benefit claimants have failed to declare or under declare earnings. Plans are underway to expand the use of RTI beyond the current bulk data match exercise to allow local authorities to have immediate access to RTI through digital web services with automated alerts when income from earnings and pensions changes. This will allow immediate verification of income at the new claim stage as well as through the life of the claim. The department's updated strategic approach to tackling Housing Benefit fraud and error for 2015-2018 will be published this year.	The production of a comprehensive and well informed strategy and operational plan has established clear responsibilities for reducing fraud and error. The Department has embedded a number of these interventions, such as bulk data matching, using RTI, across all Local Authorities however a number of the interventions remain at the pilot stage.
The department should provide a more complete assessment of the wider costs to local authorities of the SFIS programme, and consider how the benefits of local knowledge and data sharing can be maintained in the longer term.	The department has supported Local Authorities concerned about the loss of specialist fraud knowledge by paying £12.8 million over two years, covering the life of the SFIS business case until 2021-22. This was based on Local Government's own estimates on the impact and in England, the Department for Communities and Local Government has used the money to establish a Challenge Fund. The staff transferring into the department will ensure local knowledge is retained and processes are in place to share data.	The Department is not yet in a position to demonstrate the success of the SFIS project. The Department has informed us that there are plans in place to establish the impact of SFIS on the value and volume of Housing Benefit fraud, although this analysis has not yet been carried out.