



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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**Department for Work & Pensions**

# Investigation into overpayments of Carer's Allowance

# What this investigation is about

- 1** The Department for Work & Pensions (the Department) pays £66.15 a week in Carer's Allowance to people who earn less than £123 a week and provide at least 35 hours of care a week to someone who receives a qualifying disability benefit. In 2017-18, the Department paid £2.9 billion in Carer's Allowance to 826,000 carers. The number of people in receipt of Carer's Allowance has increased by 50% since 2010-11, in part due to the growth in the number of people receiving qualifying benefits, such as Personal Independence Payment.
- 2** The Department sometimes overpays or underpays Carer's Allowance, so the claimant receives more or less than they are entitled to. This can be due to claimant fraud or error, or error by the Department, known as official error. The Department's estimate of total overpayments in 2017-18 was £160 million (5.5% of Carer's Allowance expenditure).
- 3** We undertook this investigation because Members of Parliament (MPs) have expressed concerns about the level of Carer's Allowance overpayments and the impact on claimants of the Department's attempts to recover them.
- 4** In August 2018, a whistleblower contacted the current permanent secretary of the Department alleging that ongoing issues in Carer's Allowance had not been resolved, and that millions of pounds in overpayments were going undetected because of reduced compliance checks. The whistleblower expressed concerns that the Department had recently announced the discovery of a large backlog of compliance and fraud cases, with over 1,000 cases being considered for either prosecution or administrative penalties.
- 5** This investigation examines both the concerns about the recent increase in identified errors and attempts to recover overpayments, and how the Department has managed fraud and error in Carer's Allowance over time. It sets out:

  - the recent increase in detected overpayments and how the Department is attempting to recover overpayments (Part One);
  - the Department's understanding of the causes of overpayments in Carer's Allowance (Part Two); and
  - the Department's progress in improving detection and prevention of overpayments (Part Three).

# Summary

## Key findings

Recent increase in detected overpayments and repayments

**1 The Department is detecting significantly more Carer's Allowance overpayments than before.** The Department detected 93,000 overpayments in 2018-19 compared with an average of 41,000 a year detected in the previous five years. Many overpayments were for just one week. In some cases, overpayments went on for more than a decade before they were discovered. The Department is detecting overpayments now that it could have detected earlier because it has in the past year put in place more people and new systems to detect overpayments and is resolving backlogs generated by a previous shortage of staff. We discuss this further in paragraphs 12 to 18 below. The Department will seek to reclaim overpayments over £65 that it deems to be the carer's fault, whenever they occurred (paragraphs 1.6, 1.7 and 3.5 to 3.8 and Figures 3 and 12).

**2 The Department is seeking more repayments from carers for overpayments of Carer's Allowance, in some cases for large amounts.** The Department aims to recover around £150 million from carers where the Department deems the carer was at fault for an overpayment over £65. It is seeking repayments from just under 80,000 carers for overpayments detected in the years up to now. Just over half of these debts are under £1,000 but some carers have much larger debts. There were 133 individuals with outstanding debts of over £20,000 at the end of March 2019 (paragraphs 1.10 and 1.11 and Figures 4 and 5).

**3 Legislation caps the amount that carers have to repay each week.** In line with legislation, the Department reclaims overpaid Carer's Allowance by reducing benefits or through deductions of up to 20% from employee earnings (or 40% for fraudulent cases). It caps deductions from benefits to £11.10 a week (or £29.60 a week for cases of fraud) (paragraph 1.12).

**4 It will take a long time for carers to repay these overpayments.** The Department has reclaimed £22 million of overpaid Carer's Allowance in 2018-19 by reducing people's benefits and through mandatory deductions from employee earnings. At the standard rate of repayment for those on benefits, it will take an average of three and a quarter years for carers to repay their debt. For those on benefits with an overpayment of £20,000 this could require repayments for the next 34 years. The Department will not normally write-off this debt until it is repaid (paragraph 1.13).

**5 The Department does not know how these repayments affect carers or the disabled person they care for.** Under legislation, the Department does not need to assess the impact on carers when seeking repayments and deductions from benefits. It has not conducted any recent evaluation of the impact of its debt recovery policies. The Department does offer hardship rates of recovery to those struggling with repayments. There are currently just under 1,000 carers receiving hardship rates (paragraphs 1.14 and 1.15).

**6 The Department may need to pay arrears of other benefits to the disabled person if their carer was overpaid Carer's Allowance.** For example, when making their claims, many disabled people and their carers will need to choose between the disabled person receiving a severe disability premium or the carer receiving Carer's Allowance. Where a carer claiming Carer's Allowance is later found to be ineligible for that Carer's Allowance (and thus overpaid), the Department may need to pay arrears of severe disability premium to the disabled person. The weekly payments are similar. The Department has processes to identify such cases but does not record how often it pays arrears of other benefits as a result of overpaid Carer's Allowance (paragraphs 1.17 to 1.21).

The causes of overpayments

**7 The Department has a limited understanding of underlying rates of fraud and error.** The Department uses sampling to estimate the underlying levels of over and underpayments in benefits beyond the specific cases it detects. The assumed rates of overpayment (5.5%) and underpayment (0.1%) for Carer's Allowance are based on measurements from more than 20 years ago. We have previously recommended that the Department updates its estimates, and it is now working on a new estimate for 2020 (paragraphs 2.4 and 2.5 and Figure 7).

**8 Most detected overpayments arose because carers failed to notify the Department with the correct information about their earnings.** The Department classifies 89% of the value of overpayments as fraud or claimant error – these overpayments are the carer's fault and need to be repaid. By value, around 70% of identified cases of overpayments are because carers' earnings are over the earnings limit. Where carers' circumstances change, the regulations state that carers should notify the Department as soon as 'reasonably practicable' (paragraphs 2.6 and 2.7 and Figures 7 and 8).

**9 The Department acknowledges that it needs to improve its communications with carers to increase their understanding of their obligations.** Some carers are involuntarily caught out by eligibility rules which create a 'cliff edge': carers are either entitled to the whole allowance or none of it. Uncertainty about what are allowable expenses can also lead to overpayments. The Department is reviewing its initial and annual letters to carers, as well as the online guidance, to clarify carers' obligations (paragraphs 2.9 and 2.10).

**10 Few overpayments are proven fraud.** The number of people the Department referred for prosecution for fraud fell from 1,176 in 2014-15 to 483 in 2018-19. In 2018, the Department cleared a backlog of 1,000 cases it was considering for referral to the Crown Prosecution Service, partly by applying more administrative penalties. These involve the claimant admitting fraudulent behaviour and paying a financial penalty of up to half the overpayment, capped at £5,000. The Department agreed 1,253 administrative penalties in 2018-19 compared with an average of 860 in the previous four years (paragraphs 2.11 to 2.14 and Figure 9).

**11 Some errors are the Department's fault.** Official error is where the Department has the information to assess an award but makes a mistake. The Department has internal estimates of official error rates based on samples of new claims and changes in circumstances. These showed an overpayment rate of 1.8% and an underpayment rate of 0.8% in 2017-18 (paragraphs 2.15 and 2.16).

### Progress in detecting and preventing overpayments

**12 The Department's strategy for reducing fraud and error in Carer's Allowance focuses on matching claims to earnings data.** It does not attempt to detect every overpayment, and its compliance activity is partly intended as a deterrent. Its main compliance activity is to match claims to earnings data provided by employers and pension providers to HM Revenue & Customs (HMRC). This flags cases where carers may be earning more than the earnings limit (paragraphs 3.2 to 3.4).

**13 Potential overpayments flagged in data matching need to be followed up manually.** The Department uses data matching to flag cases, but it also needs to check these with the carers themselves, as many matches are false positives. Over the past five years the Department has improved its systems of data matching so that they are more timely and more of the cases investigated lead to a detected overpayment (paragraphs 3.4 and 3.5).

**14 In the past the Department has not had enough staff to follow up every case flagged by data matching.** For example, between 2016 and 2018, data matching on earnings identified a monthly average of 3,220 cases worthy of investigation; the Department investigated an average of 380 cases. Around two-thirds of carers with debts for earnings-related overpayments over £2,500 would have had their overpayments stopped earlier if the Department had put in place sufficient staff. As the Department has improved its data matching, it has chosen not to investigate all remaining cases flagged under previous systems because it believes ongoing overpayments will be caught by the new systems (paragraph 3.6 and Figures 11 and 13).

**15 Staffing shortages in recent years also created administrative backlogs, leading to delays in identifying overpayments.** The Department underestimated both staff turnover and how much claims for Carer's Allowance would increase. This led to backlogs which peaked at 52,000 unprocessed new claims in September 2017 and 104,000 unprocessed changes in circumstances in November 2018. Delays in processing claims and changes meant that overpayments were not identified in a timely manner (paragraphs 3.10 and 3.11).

**16 In clearing backlogs, the Department has identified more overpayments and arrears.** By March 2019, 181 more staff were processing changes in circumstances than in April 2017. Outstanding changes to be processed fell in December 2018 for the first time since November 2016 and currently stand at 67,000. Processing these changes is leading to more incorrect payments being identified. Since late 2018, the Department has also brought in an additional three operational centres across the country to investigate potential overpayments flagged by data matches (paragraphs 3.8 and 3.13).

**17 The Department may suspend payments to carers when it needs to process changes in circumstances that could affect the claim.** In such instances, officials looking at the case will usually suspend payments of the benefit to mitigate against the risk of overpayments. If it is found that the carer remains eligible they will then need to be paid arrears. As a result of backlogs, it has taken several months, and in some cases years, for some of these cases to be properly resolved. The Department does not measure how many people it has to pay such arrears to (paragraphs 3.10 to 3.12).

**18 The Department has recently introduced a new system that flags data matches more promptly.** Since September 2018 it has received alerts whenever HMRC earnings data show a carer exceeding the earnings limit. The Department estimates that the system will produce additional savings of £136 million by 2025-26 by reducing fraud and error but it has limitations:

- **The new system produces more matches which need to be investigated.** The Department has put in place a team of 33 full-time equivalent staff to process these alerts, over three times those working on previous earnings data matches. However, they will each need to process around 190 cases a month compared to the previous rate of 47 a month. The Department currently has no plans to automate any of this work.
- **The new system will not detect all overpayments.** The Department has stopped processing some previously flagged potential overpayments on the basis that they will now be caught by the new system. Where carers are no longer paid Carer's Allowance, the system has no means of detecting historical overpayments. The Department is also currently unable to register 254,000 carers (30%) due to software issues but is trying to resolve these. It is currently relying on old detection methods for this group (paragraphs 3.15 to 3.18).