National Audit Office

# Report on Accounts

## Department for Work & Pensions

REPORT

by the Comptroller and Auditor General

JULY 2022

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# Report on Accounts

## Department for Work & Pensions

Report by the Comptroller and Auditor General

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Comptroller and Auditor General
National Audit Office

30 June 2022

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# Fraud and error in benefit expenditure

## Introduction

**1** The Department for Work & Pensions (the Department) is responsible for developing and delivering the UK's welfare system, paying benefits and State Pension to claimants and pensioners on time, and in full, in accordance with legislation and the related regulations.

**2** In 2021-22 the Department spent £217.2 billion on benefits and State Pension payments to claimants and pensioners.[1] Of this, £104.1 billion was spent on the State Pension, £96.4 billion was on other benefits paid directly by the Department and £16.7 billion was for Housing Benefit paid on its behalf by local authorities. Benefit and State Pension expenditure represents 96% of the Department's total operating expenditure of £225.6 billion. The remaining expenditure relates to the Department's running costs including staff remuneration.

**3** This report sets out:

- the reasons and context for my qualified audit opinion in relation to fraud and error in benefit expenditure;
- the Department's estimated level of fraud and error in benefit expenditure;
- the Department's plan for reducing fraud and error following the COVID-19 pandemic; and
- the Department's progress in addressing the systemic underpayment of State Pension.

1 Audited total expenditure on benefits in 2021-22 was £217.2 billion, as reflected in the Statement of Comprehensive Net Expenditure for the core Department. Note 18 to the Department's accounts sets out estimated total expenditure on benefits of £215.8 billion, which represented the latest available forecast for 2021-22 at the time the Department produced the fraud and error estimates.

## Key findings

4 **I have qualified my opinion on the regularity of the Department's 2021-22 financial statements due to the level of fraud and error in benefit expenditure.** This is the 34th year in which the Department's accounts have been qualified due to material fraud and error. I have again excluded expenditure on State Pension from my qualified opinion because the Department estimates that it overpaid 0.1% of State Pension payments and underpaid 0.5% of State Pension payments, which is not material to a reader's understanding of the accounts (paragraphs 13 to 18).

5 **The estimated level of fraud and error overpayments remains at a record level following the COVID-19 pandemic.** The Department estimates that it overpaid £8.5 billion of benefits, other than State Pension, in 2021-22, an increase of £380 million since 2020-21. This represents 7.6% of the £111.3 billion total spend on all benefits other than State Pension, a slightly higher rate than in 2020-21 (7.3%) and the highest rate since the Department began estimating fraud and error this way in 2005 (paragraphs 19 to 24, and Figure 1).

6 **The largest increase comes from fraudulent Universal Credit claims, which now account for £5.2 billion of the £8.5 billion overpaid.** The Department estimates it overpaid 14.7% of all Universal Credit payments in 2021-22.[2] Its central estimate of this rate has risen every year since Universal Credit was first introduced and is the highest rate for any benefit ever recorded. In 2020 we concluded that the Department had not prioritised tackling fraud and error in its roll out of Universal Credit. The Department then needed to suspend key controls over fraud and error in order to process the number of new claims it received at the start of the pandemic. It estimates the level of Universal Credit expenditure overpaid due to fraud and error was 26.6% for claims made during the surge of new claims at the start of the pandemic (March to June 2020). This is up from 10.9% for claims made before the start of the pandemic (paragraphs 25 to 32, and Figures 2 and 3).

7 **The Department has largely recovered from the disruption to its operations from COVID-19, but continues to manage backlogs and has not yet reinstated some controls over fraud and error.** These backlogs have proved complex to resolve due to restrictions on in-person interaction as a result of COVID-19. The Department expects to reduce this outstanding work to a manageable level in 2022-23 (paragraphs 37 to 43, and Figure 4).

8 **The Department is owed £7.6 billion for overpaid benefits, benefit advances, and Tax Credits by around five million claimants.** This increased by over £1 billion in 2021-22 and the Department expects this pattern to continue until it has fully embedded its new prevention measures. Total recovery of this debt in 2021-22 was £2.0 billion, with 90% of debt recovered through benefit deductions. The Department can only recover overpayments it identifies. Most overpayments are not identified and will not be recovered (paragraphs 44 to 46, and Figure 5).

2 The fraud and error sampling exercise for the financial year 2021-22 covers the period October 2020 to November 2021. Throughout this Report we have used rounded fraud and error figures taken from the published National Statistics.

**9 The Department has received an additional £613 million of funding to tackle fraud and error as part of the 2022-2025 Spending Review settlement.** This includes funding for a significant increase in staff to support counter-fraud work such as reviewing and correcting open Universal Credit cases, and for the wider use of automation and modernisation of fraud and error processes. The Department also plans to bid for legislation to establish greater powers of access to third-party data and powers to make arrests, carry out searches and seize evidence (paragraphs 52 and 53, and Figure 6).

**10 The Department has more work to do to demonstrate that it is doing all it can to tackle fraud and error over the long term.** It has largely implemented the five recommendations I made last year to improve its response on fraud and error in the immediate aftermath of the pandemic. However, it is still in the process of improving its understanding of the cost effectiveness of its control environment in line with my recommendations before the pandemic. Similarly, the Department has committed to publishing a fraud and error target, but says it is not able to do this yet due to uncertainty in baseline levels of fraud and error (paragraphs 50 and 51).

**11 The Department now estimates that it has underpaid 237,000 state pensioners a total of £1.46 billion, with underpayments dating as far back as 1985.[3]** This is an increase of £429 million and 105,000 pensioners on the Department's best estimate at the end of 2020-21. This increase is because the Department has now undertaken new computerised scans of its data, which it was unable to conduct last year, to identify cases its staff need to review. The Department has now conducted all the scans it needs to identify potentially affected cases, but will not know the full extent of the underpayments until it has fully reviewed every case (paragraphs 55 to 57, and Figure 7).

**12 The Department aims to complete its review of State Pension underpayments on schedule by the end of 2023 for two of the three affected groups, but this deadline will not be met for the largest affected group – widowed pensioners.** The provision in the financial statements reflects its current assessment that the review and correction of all widowed pensioner cases may take until late 2024. A delay of this length would increase the total amount underpaid to pensioners by an estimated £14 million. Delivery of the review exercise is highly dependent on assumptions around recruitment, productivity, training, and the success of automation to speed case review. The Department needs to significantly increase the speed at which it reviews cases to complete the review of State Pension underpayments to its revised schedule (paragraphs 58 to 61, and Figures 8 and 9).

3 The Department estimates the outstanding liability (after payments made to 31 March 2022) at £1.35 billion, per the provision in Note 16 to the Accounts.

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

**13** I have qualified my opinion on the regularity of the Department's 2021-22 financial statements due to the material level of fraud and error in benefit expenditure – with the exception of expenditure for State Pension, for which the level of fraud and error is significantly lower.

**14** In performing my audit under the Government Resources and Accounts Act 2000, I am required to obtain sufficient evidence to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied for the purposes intended by Parliament and that the financial transactions recorded in the financial statements conform to the authorities that govern them.

**15** Legislation specifies the entitled criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. Where fraud or error results in the payment of a benefit to an individual who is not entitled to that benefit; or a benefit is paid at a rate that differs from the amount specified in legislation, the overpayment or underpayment does not conform with Parliament's intention and is irregular.

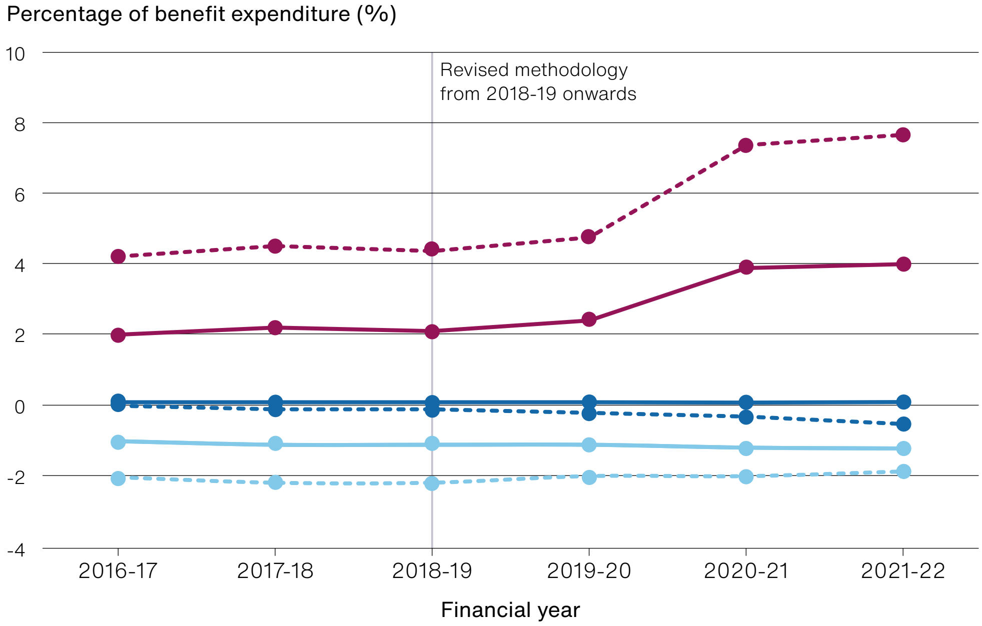
**16** In assessing my regularity opinion, I consider the rates across all benefits including State Pension. The Department has estimated material levels of fraud and error in all benefits except State Pension. For State Pension, the Department's estimate of overpayments remains at 0.1% of expenditure (£110 million), and it estimates that underpayments have increased to 0.5% of expenditure (£540 million). I continue to regard the combined value of £650 million as immaterial in the context of the £217.2 billion benefit expenditure in the accounts. As a result, I exclude State Pension expenditure from my qualified opinion on the accounts. I recognise that underpayments of State Pension can have a significant impact on those affected (paragraphs 55 to 61), and it remains important that the Department improves accuracy in all payments, not just those benefits where I qualify my opinion. Although I note the impact of this issue and the failings by the Department that caused it, the provision covers expenditure over a period of more than 30 years and as such I do not consider it a material irregularity in the current year.

**17** Excluding State Pension, the rate of overpayments across benefit expenditure of £111.3 billion rose to 7.6% (£8.5 billion) in 2021-22 (**Figure 1** overleaf), its highest level since records began in 2005. The estimated rate of underpayments, excluding State Pension, is 1.9% (£2.1 billion), slightly lower than in 2020-21 (2.0%).

## Figure 1

The Department for Work & Pensions' (the Department's) overpayments and underpayments in benefit expenditure, 2016-17 to 2021-22

**Overpaid benefit expenditure remains at record levels in 2021-22**




| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| All overpayments | 2.0 | 2.2 | 2.1 | 2.4 | 3.9 | 4.0 |
| Overpayments excluding State Pension | 4.2 | 4.5 | 4.4 | 4.7 | 7.3 | 7.6 |
| All underpayments | -1.0 | -1.1 | -1.1 | -1.1 | -1.2 | -1.2 |
| Underpayments excluding State Pension | -2.0 | -2.2 | -2.2 | -2.0 | -2.0 | -1.9 |
| State Pension overpayment | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| State Pension underpayment | 0 | -0.1 | -0.1 | -0.2 | -0.3 | -0.5 |

**Notes**

1 Underpayments are presented as negative percentages here because they represent claimants receiving less than their entitlement, whereas overpayments represent amounts greater than their entitlement.

2 All data points are the Department's central estimates of the rates. The Department reports its ranges in its published statistics on fraud and error in the benefit system. Statistics are taken from the supporting tables accompanying the Department's *Fraud and error in the benefit system statistics, 2021 to 2022 estimates*. That publication provides full data going back to 2005-06 when the Department first started measuring fraud and error.

3 The Department's 2022 estimates restate some figures slightly from what had been published in previous reports. For example, it changed its methodology in 2019-20 and restated its results for 2018-19. The data above show the restated results for 2018-19 with the vertical line signifying the change in the methodology.

4 There have been changes to the benefits measured or in payment since 2016-17, for example Universal Credit was introduced in April 2013 to replace other working-age and incapacity benefits, with fraud and error in the benefit first measured in 2015-16. In 2020-21, Universal Credit was the only benefit fully measured as the Department reduced the number of cases it reviewed due to COVID-19. In 2021-22 the Department resumed its full measurement regime, which included claimant error and fraud in State Pension for the first time since 2005-06.

5 Data relate to benefit expenditure in Great Britain, excluding expenditure that has been devolved to the Scottish Government. Benefit expenditure in Northern Ireland is the responsibility of the Northern Ireland Executive.

Source: National Audit Office analysis of the Department for Work & Pensions' fraud and error statistical data

**18** The Department's accounts have been qualified every year since 1988-89 due to material levels of overpayments and underpayments in benefit expenditure. For 2021-22, the rate of overpayments excluding State Pension remains significantly elevated compared with pre-pandemic levels, having increased significantly as a result of changes introduced at the start of the pandemic to ensure that benefits were delivered quickly to those in need, as well as an increase in cases with greater fraud and error risk. The Department continues to face a considerable challenge as it seeks to implement its long-term strategy to reduce fraud and error and achieve a cost-effective control environment for benefit delivery.

## The estimated level of fraud and error in benefit expenditure

**19** Benefit payments are susceptible to both deliberate fraud by individuals and organised crime attacks, as well as unintended error by claimants and the Department. The Department relies on claimants providing timely and accurate information, particularly when their circumstances change, and the complexity of benefits can cause confusion and genuine error. The Department estimates fraud and error through direct measurement of five or six benefits each year using a statistical sampling exercise. Estimates for unsampled benefits are either rolled forward from previous sampling exercises, or, for benefits that have never been measured, based on assumptions about the likely levels of fraud and error.[4] The results of this exercise are published as National Statistics, which present estimates of overpayment and underpayment categorised into Fraud, Claimant Error and Official Error (see paragraph 24).

**20** The Department sets out its estimates of benefit overpayments and underpayments due to fraud and error in 2021-22 in Note 18 to the Accounts. This year the Department has measured fraud and error in Universal Credit, State Pension (including fraud and claimant error for the first time since 2005-06), Housing Benefit, Employment Support Allowance, Pension Credit, and Attendance Allowance (for the first time ever).

**21** The fraud and error levels reported in the 2021-22 statistics are based on sampling exercises performed between October 2020 and November 2021. As a result, they cover a period that was largely affected by the pandemic. During this time there were still significant control easements in place, and the Department had not meaningfully implemented any of its new forward-looking fraud strategy.

**22** Overall, 77% of benefit expenditure was subject to the sampling exercise in 2021-22 and for the remainder the Department applied historic estimates based on sampling in previous years. This is a return to normal compared with 2020-21 when only Universal Credit and official error in State Pension were measured due to COVID-19 restrictions. In addition, the Department has estimated the level of fraud and error in Universal Credit advances for the first time (see paragraph 47).

4 Claims where the benefit is no longer in payment, or benefit was denied at application, are not included in the sampling exercise, and so any fraud or error in those benefits are not included in the Department's estimate.

**23** The overall levels of fraud and error show a slight increase on 2020-21 and therefore remain significantly elevated when compared with those before COVID-19. The Department has stated that it expected fraud and error results to be broadly similar to last year, because the caseload still contains many cases from the early days of the pandemic. Overall overpayments increased to 4.0% (£8.6 billion), up from 3.9% (£8.2 billion) in 2020-21. Overall underpayments remained at 1.2% (£2.6 billion), representing a £100 million increase on 2020-21 (Figure 1).

**24** Excluding State Pension, the estimated rate of overpayment across benefit expenditure reached a record 7.6% (£8.5 billion), an increase of £380 million compared with 2020-21. The rate of overpayment increased in five of the benefits sampled, with Universal Credit continuing to dominate overall overpayments (**Figure 2**). Within the estimated 7.6% overpayment rate:[5]

- 5.8% (£6.5 billion) was Fraud, where claimants deliberately sought to mislead the Department to claim money to which they are not entitled. This compared with 5.6% (£6.2 billion) in 2020-21;
- 1.3% (£1.5 billion) was Claimant Error, where claimants made mistakes with no fraudulent intent - for example if they provide inaccurate or incomplete information; and
- 0.6% (£650 million) was Official Error, where a benefit was paid incorrectly due to inaction, delay or a mistaken assessment by the Department.

The estimated rate of underpayment across benefit expenditure, excluding State Pension, was 1.9% (£2.1 billion), compared with 2.0% (£2.2 billion) in 2020-21 (Figure 1).

## Fraud and error in Universal Credit

**25** Fraud and error in Universal Credit remain at record levels compared with historic comparators. The estimated gross rate of fraud and error for Universal Credit payments in 2021-22 is 15.7% (£6.3 billion), compared with 15.9% (£6.1 billion) last year. This is made up of:

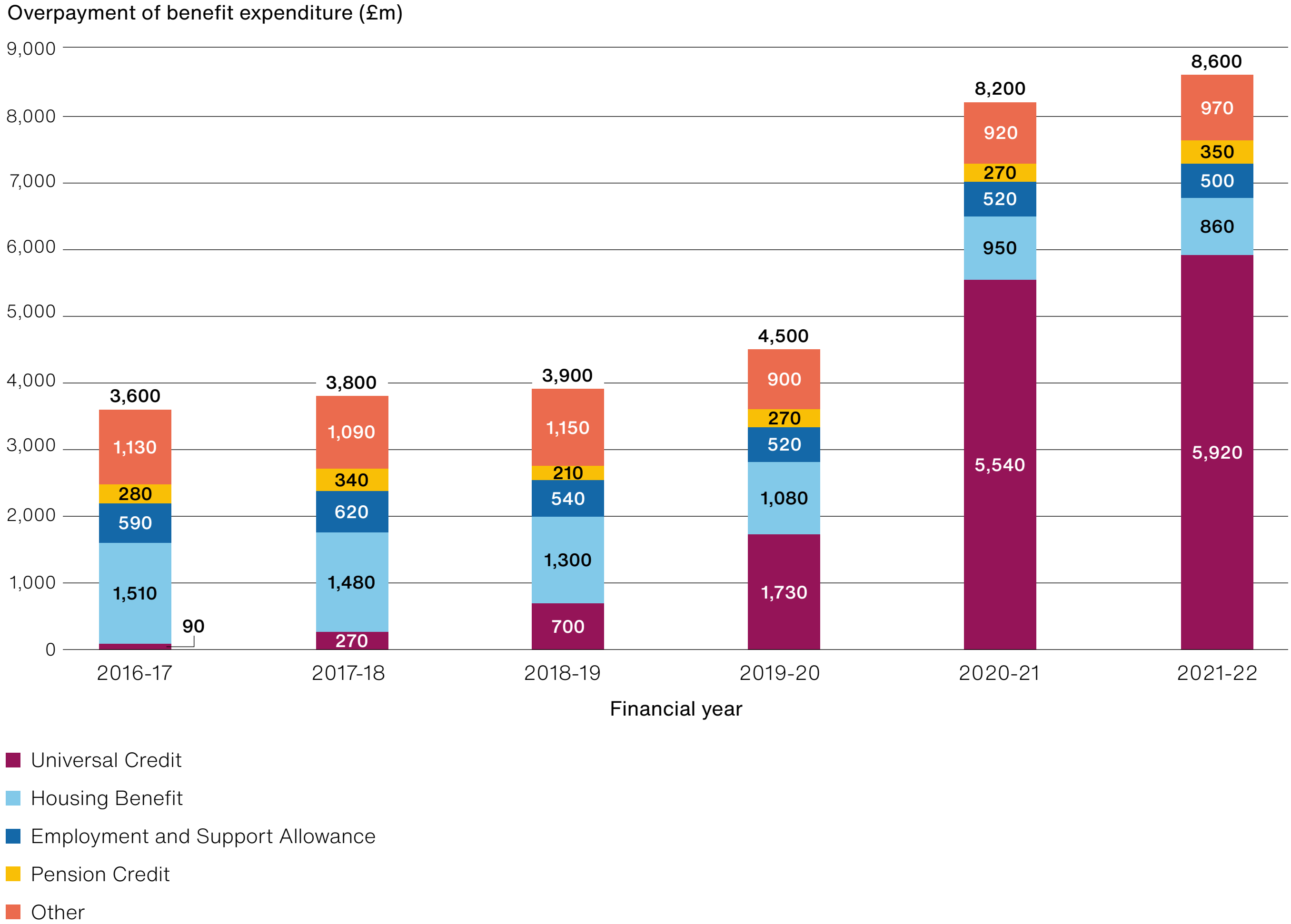
- overpayments of 14.7% (£5.9 billion), up from 14.5% (£5.5 billion) in 2020-21; and
- underpayments of 1.0.% (£410 million), down from 1.4% (£540 million) in 2020-21.

5 Figures may not sum due to rounding.

## Figure 2

Overpayments of the Department for Work & Pensions' (the Department's) benefit expenditure, 2016-17 to 2021-22

**Universal Credit accounted for most benefit overpayments in 2021-22 for the second year running**




**Notes**

1 The Department reviews a selection of benefits for fraud and error each year. Estimates for other benefits come from previous review exercises, or proxies.

2 The 'Other' category contains (in order of largest to smallest overpayment in 2021-22): Personal Independence Payment, Carer's Allowance, Attendance Allowance, Disability Living Allowance, State Pension, Income Support, Jobseeker's Allowance, and a number of unreviewed benefits.

3 Data relate to benefit expenditure in Great Britain, excluding expenditure that has been devolved to the Scottish Government. Benefit expenditure in Northern Ireland is the responsibility of the Northern Ireland Executive.

Source: National Audit Office analysis of the Department for Work & Pensions' fraud and error statistical data

**26** The increasing level of fraud and error in Universal Credit is by far the biggest cause of increasing overpayments in the welfare system since the start of the pandemic (Figure 2). Universal Credit overpayments accounted for £5.9 billion out of £8.6 billion (69%) of all benefit overpayments in 2021-22. This is because:

- Universal Credit now accounts for 36% of benefit expenditure excluding State Pension, compared with less than 1% in 2015-16. This has increased as claimants have transferred from legacy benefits such as Jobseeker's Allowance and Tax Credits administered by HM Revenue & Customs (HMRC); and
- the Universal Credit overpayment rate is now at the highest level on record for a benefit administered in the UK. Most of this overpayment, £5.2 billion out of £5.9 billion, relates to fraud. The overpayment rate for Universal Credit claims made at the start of the pandemic (March to June 2020) is 26.6%, compared with 10.9% for claims made before the start of the pandemic. This increase is a result of the surge of around two million new claims in the early months of the pandemic. The Department responded to this surge by relaxing key controls over fraud and error in order to ensure timely payment of benefits.

**27** Even before COVID-19, fraud and error in Universal Credit expenditure has increased in every year since launch. Universal Credit rolled out from April 2013, at which point claimants began migrating over from Tax Credits administered by HMRC. Between 2005-06 and 2013-14, HMRC had been successful in significantly reducing fraud and error in Tax Credits, while fraud and error in the Department's benefits remained broadly flat. However, while the improved fraud and error performance in Tax Credits has been broadly sustained, since 2014-15, the level of fraud and error across all benefit expenditure has significantly increased as Universal Credit has come to dominate benefit expenditure.

**28** The design of Universal Credit means that it is likely to have higher levels of fraud and error than other benefits, because the assessment of claims depends on many more types of information. This information is wide ranging, including possession of capital, self-employment earnings, housing costs, and disability. The Department expected Universal Credit to increase the level of fraud and error but to reduce the cost of overpayments to the taxpayer. This is because of how it assesses people's income monthly compared with Tax Credits. Under the Tax Credit regime, HMRC makes a provisional award to claimants based on the information it holds and then calculates their actual entitlement after the end of the year. Tax Credit claimants are expected to notify HMRC of some changes in their circumstances, but they do not have to notify HMRC of changes in income. Any in-year overpayment due to a change in their circumstance that they do not report to HMRC does not count as fraud and error. By contrast, Universal Credit involves a monthly assessment of claimants' income. Any monthly change in income is adjusted for earlier, but any change that is not adjusted for counts as fraud and error. This can save the taxpayer money, because not all overpayments are recovered.

**29** The Universal Credit overpayment rate had grown before the pandemic to be significantly higher than the Department had expected. For example, in 2019-20 the overpayment rate was 9.4%, whereas the Department's forecast for the same year, based on a range of assumptions, was 6.4%. We reported in March 2020 that it was not clear that tackling fraud and error had been a top priority for Universal Credit, and that it was not being monitored to the same extent at a senior level as other programme aims, such as improving payment timeliness.[6] The Department has previously acknowledged that it underestimated the risk of fraud and error inherent to Universal Credit.

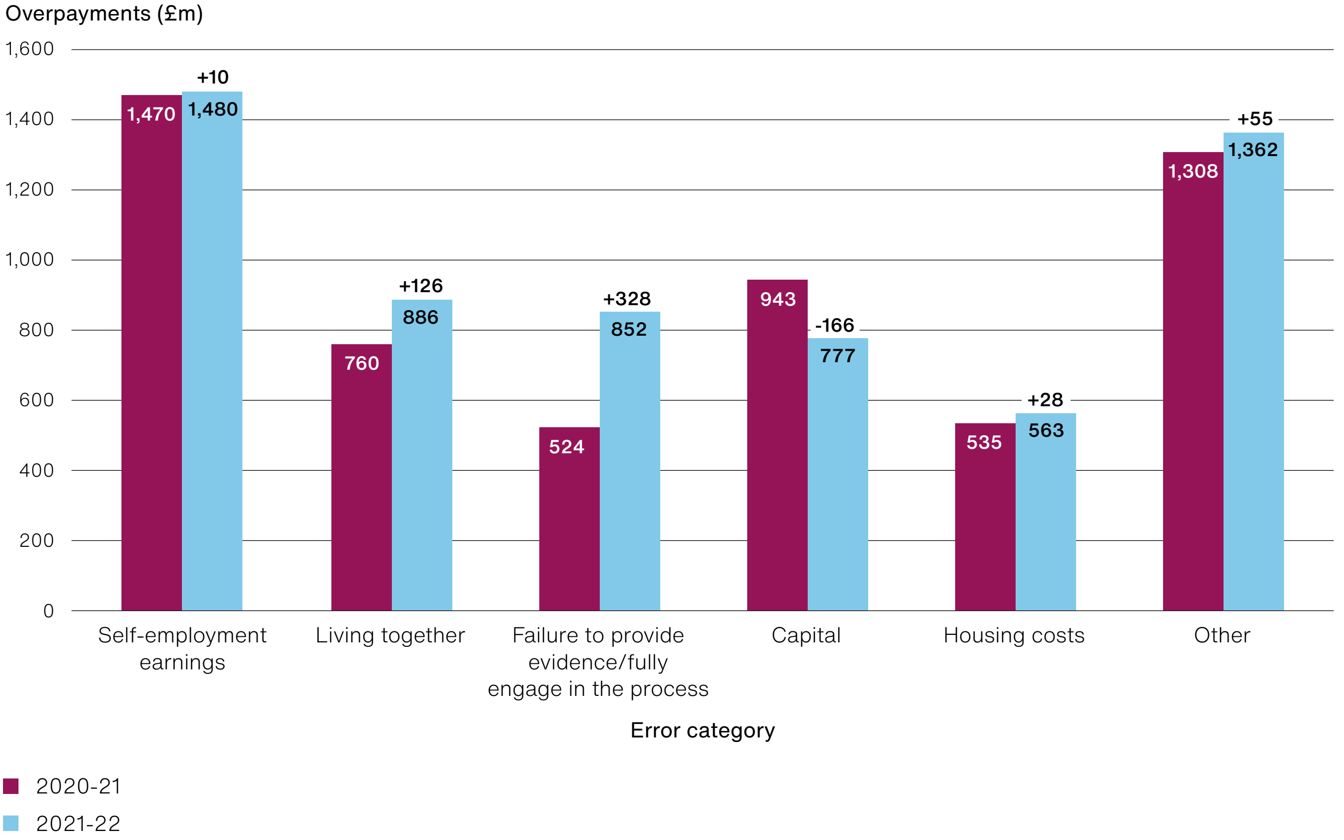
**30** Although the pandemic caused a surge in Universal Credit claims and a shift in the caseload toward potentially riskier individuals, the inherent susceptibility of Universal Credit to fraud and error remains unchanged. The Department seeks to understand the causes underlying fraud and error through its annual sampling exercise. In 2021-22 the largest categories of error for Universal Credit related to: incorrectly reported self-employment earnings, whether claimants were correctly reporting living together, failure to provide evidence or engage fully with the process, capital levels and housing costs. Together these five categories account for three-quarters of overpaid Universal Credit (**Figure 3** overleaf).

**31** Most of the recent rise in Universal Credit overpayments in 2021-22 compared with 2020-21 is due to a significant increase in cases selected for review where there was a 'failure to provide evidence/fully engage in the process'. These claims have increased by two-thirds (£328 million) since 2020-21. These are cases where the claimant has chosen to give up their benefit claim rather than engage with the review process that the Department uses to estimate fraud and error. The Department assumes that such claims are fraudulent, because if the individual had a legitimate claim, they would be highly likely to need the money and therefore motivated to engage with the process. The Department also believes that the rise in these cases may be driven by people who started claiming Universal Credit early in the pandemic and have since seen their circumstances improve, but who have not notified the Department. Although these may be reasonable assumptions, the Department does not fully know the reasons for non-engagement and has limited ability to assess the nature of fraud and error in these cases. The sharp increase in the value of overpayments in this error category is therefore a reflection of increasing uncertainty around the exact causes of fraud and error in Universal Credit, and this is a challenge the Department must overcome in designing responses to causes of fraud and error.

6 Comptroller and Auditor General, *Universal Credit: getting to first payment*, Session 2019-21, HC 376, National Audit Office, July 2020. Available at: www.nao.org.uk/wp-content/uploads/2020/07/Universal-Credit-getting-to-first-payment.pdf

## Figure 3
Universal Credit overpayments by category of error, 2020-21 and 2021-22

**'Failure to provide evidence or fully engage in the process' increased by more than any other error type**




**Notes**

1 The data presented here are central estimates. The Department reports its ranges in its published statistics on fraud and error in the benefit system. Available at: www.gov.uk/government/statistics/fraud-and-error-in-the-benefit-system-financial-year-2021-to-2022-estimates

2 The risks shown here are the five largest error categories. The Department categorises self-employed earnings as a sub-category of a wider earnings/employment risk. Previous National Audit Office reports have presented the data using the earnings/employment categorisation. 'Other' contains all other smaller risk categories. A full list of all categorisations can be seen in the Department's fraud and error estimates at the link above.

3 Data relate to benefit expenditure in Great Britain, excluding expenditure that has been devolved to the Scottish Government.

4 Benefit expenditure in Northern Ireland is the responsibility of the Northern Ireland Executive.

Source: National Audit Office analysis of the Department for Work & Pensions' fraud and error statistical data

**32** The Department has performed a retrospective review of Universal Credit claims from the early period of the pandemic where it suspects that 'Trust and Protect' controls easements may have led to incorrect claims.[7] The Department has now considered over one million Trust and Protect cases still in payment and found fraud or error in 12% of these, generating savings of £500 million. Around 800,000 of the Trust and Protect cases are now closed. In response to recommendations from the National Audit Office and the Committee of Public Accounts, the Department has reviewed the information it holds for a small sample of these closed cases and found a relatively low proportion of cases showing indications of fraud and error (around 4%) compared with cases that have remained open. The Department therefore initially told the Committee that it would focus on cases still in payment, where compliance action could prevent a future overpayment. However, it noted that it may revisit this decision in future. In line with this, the Department has since said in its 2021-22 Annual Report that on reflection it is now considering how best to tackle this cohort. It is unclear why the level of fraud and error in these closed cases is so much lower than the 12% identified for open Trust and Protect cases. The Department thinks that closed-case claimants are likely to be more honest, because they have closed their claimants voluntarily. The retrospective review was not designed to look at all aspects of a claim, only information verified via Trust and Protect. Therefore, it would not have found fraud and error related to earnings or other issues.

## Fraud and error in State Pension

**33** The Department spent £104.5 billion on State Pension in 2021-22, around half of total benefit expenditure. The estimated gross rate of fraud and error in State Pension increased to 0.6% (£650 million) in 2021-22, comprising:

- overpayments at 0.1% (£110 million), the same rate as last year; and
- underpayments at 0.5% (£540 million), an increase of £230 million on the estimated amount in 2020-21 of 0.3% (£310 million).

7 Trust and Protect refers to the early period of the pandemic where the Department relaxed a number of key controls in order to be able to process and pay claims on time.

**34** A full review of fraud, claimant error and official error in State Pension was performed this year for the first time since 2005-06. In those intervening years the Department only measured official error, and rolled forward the levels of fraud and claimant error. The newly estimated levels for 2021-22 do not differ significantly to the rolled forward levels, with:

- fraud at 0.0% and claimant error at 0.1%, the same as the rolled-forward rates, and;
- official error, caused by the Department, at 0.5% (£580 million), compared with 0.3% (£330 million) in 2020-21.

**35** As a result of the first full review of State Pension fraud and error since 2005-06, the Department has reported on several types of historic error for the first time.[8] The most significant of these were newly identified errors in National Insurance records, administered by HMRC. This relates to Home Responsibilities Protection (HRP) which reduces the number of qualifying years needed for a basic State Penson – for example, when people did not work due to childcare or other caring responsibilities. Errors were identified this year where periods of HRP were not accurately recorded. The Department is dependent on HMRC to help identify affected cases, before it can estimate the total value of any underpayment and correct payments. These newly identified errors account for most of the increase in the State Pension underpayment rate from 0.3% to 0.5%.

## Fraud and error in Attendance Allowance

**36** The Department also measured fraud and error in Attendance Allowance for the first time in 2021-22. Attendance Allowance is a disability benefit that can be paid to help with personal support where a claimant is both physically or mentally disabled and aged 65 or over. The estimated rate of overpayment in Attendance Allowance is 2.2% (£120 million), and the underpayment rate is 4.3% (£230 million). These estimates suggest that Attendance Allowance has the lowest rate of overpayment (excluding State Pension), but the highest rate of underpayment of the benefits sampled this year. Almost all the underpayment of Attendance Allowance is classified as claimant error. In previous years the Department has used Disability Living Allowance (DLA) as a proxy rate for Attendance Allowance. DLA has an overpayment rate of 1.9% and an underpayment rate of 2.5%, which means that until this year the Department is likely to have underestimated the gross fraud and error rate in Attendance Allowance.

8 Although the Department has continually measured Official Error on State Pension in previous years, this did not involve customer contact. When contacting claimants this year as part of the full review, the Department identified areas of official error that it was not capturing in previous years.

## Reducing fraud and error following the COVID-19 pandemic

**37** The COVID-19 pandemic led to social distancing and Jobcentre Plus closures for all but the most vulnerable. In response, the Department was forced to significantly adapt its ways of working to continue to deliver its services. This included:

- relaxing around 200 controls over fraud and error to ensure that millions of new Universal Credit claimants were paid on time (referred to as 'easements');
- redeploying 6,000 of its 8,000 counter-fraud and compliance staff to support the processing of Universal Credit claims. This led to significant backlogs in front-line counter-fraud activities and a build-up in debt relating to benefit overpayments; and
- rapidly innovating its approaches to tackling fraud, including increased used of automation and new specialist teams to deal with the rise in fraud and organised crime.

**38** The Department has now largely recovered from the impact of COVID-19 on its business-as-usual operations. It also considers several of the operational changes made out of necessity to have been effective and will make them permanent. However, it faces a significant challenge in tackling the high level of fraudulent claims that entered its caseload during the early months of the pandemic.

### Status and impact of control easements

**39** Most of the controls over benefit expenditure that were relaxed following the onset of the pandemic have now been reinstated. By April 2022 there were 25 easements that had not been fully reversed. The Department has also already permanently embedded 31 easements, meaning that the control will not return to its pre-pandemic state. For some easements this means that the eased process has become the new norm; for others, it means that the Department is developing a new solution that will differ from the previous way of working. Examples of easements that have been made permanent include:

- **Claimants are no longer required to provide a fit note in person or by post to evidence a health condition.** Claimants are required to declare evidence to the Universal Credit service and are directed to keep the evidence. The Department accepts this without directly inspecting the evidence, and will advise the claimant if they need to see it at a later date. Claimants reporting COVID-19 symptoms are now advised not to provide evidence of illness.
- **Virtual training of Work Coaches was implemented during the pandemic out of necessity, without doing the normal testing.** However, from October 2020, the Department had fully tested a revised Work Coach product, using experienced Work Coaches and its model office testing mechanisms. This timescale aligned to the start of significant Work Coach recruitment. The revised product was fully piloted and evaluated through that process with a control test of the existing Work Coach product.

**40** The Department considered the likely fraud and error risk for each control easement as it was implemented. This was a subjective, high-level assessment that has not been updated since. Of the easements still in place, the Department assessed four as having a high fraud and error risk at the point of implementation. All four relate to the removal of in-person checks for Universal Credit claims, such as the removal of a face-to-face appointment to access an advance. Last year the Department estimated that £1.3 billion of Universal Credit had been overpaid from the start of the pandemic to March 2021 as a result of the relaxation of controls. The Department has not estimated a value for the fraud and error impact of the remaining easements in the future because it does not consider them to present a significant risk.

## Progress in clearing backlogs of outstanding work

**41** Backlogs in counter-fraud work peaked in July 2020 when outstanding work totalled 2.9 million activities. The Department made significant progress in reducing outstanding work in 2021-22, with most areas of counter-fraud activity having cleared their backlogs entirely. However, backlogs for case preparation and investigation activities have increased (**Figure 4**).

**42** The backlogs remaining at April 2022 are in areas that have been more complex to resolve, primarily because the Department has not completed design work of the systems and processes needed to handle these cases. A large portion of delayed case preparation activity relates to cases of suspected overpayment due to the claimant providing false information about whom they live with. For investigations, the backlog has increased four-fold over the year, mainly due to lags in recruitment and training. Investigation officers receive security clearance and a high level of specialist training that can take over a year, and hence there is a time lag before new recruits can become fully productive. The Department expects to reduce remaining backlogs to a manageable level in 2022-23, and to see the level of prosecutions increase over the coming years as a result.

**43** There are backlogs in other activities across the Department, outside direct counter-fraud work, which may have an impact on levels of fraud and error. For example, the Department estimates that there have been up to £130 million in additional overpayments of Personal Independence Payment (PIP), and up to £60 million of underpayments, because PIP assessment reviews were delayed by COVID-19 (see Note 18 to the Accounts). The Department has not fully evaluated the possible impact of other backlogs on fraud and error.

## Figure 4
The Department for Work & Pensions' (the Department's) outstanding counter-fraud and debt activities, March 2021 and April 2022

**Backlogs have been cleared for most activities, but increased for case preparation and investigations**

| Counter-fraud activity | March 2021 | April 2022 |
|---|---|---|
| Debt referrals | 368,000 | – |
| Cases flagged by data analytics waiting review | 156,000 | 123,000 |
| Compliance work on non-criminal fraud | 150,000 | 147,000 |
| Debt corrections and refunds | 145,000 | – |
| Case preparation | 95,000 | 163,000 |
| Investigations into alleged benefit fraud | 5,000 | 23,000 |
| All other activities | 273,000 | – |
| **Total** | **1,192,000** | **456,000** |

**Notes**
1 'All other activities' includes Enhanced Checking Service (82), Universal Credit advances (80), National Insurance number decision making (55), Household splits (33), Interventions (14) and Serious and Organised Crime (8).
2 Figures are rounded to the nearest thousand.

Source: National Audit Office analysis of Department for Work & Pensions operational documents

## Recovery of overpayments

**44** Fraud and error have a real cost. Overpayments arising from fraud and error increase costs for taxpayers and reduce the public resources available for other purposes. When the Department recovers overpayments, this can lead to problems for claimants who face deductions from their income. The redeployment of compliance staff at the start of the pandemic caused large backlogs in working through compliance and debt cases. This led to delays in claimants being informed of the debts that were due. Last year I recommended that the Department improve the promptness and clarity of its communications to customers regarding debts they owe. The Department has since implemented this recommendation by clearing the backlog in debt referrals. When a debt is referred, a notification is automatically sent to the claimant.

**45** Although backlogs have been reduced significantly, overpayment debt has continued to increase to record levels. The Department's accounts show that as at 31 March 2022, gross debt relating to overpayments in benefits it administers totalled £3.6 billion. There is a further £2.7 billion of gross debt relating to Tax Credits that has been transferred from HMRC to the Department as Tax Credit claimants move to Universal Credit. Total overpayment debt, therefore, stands at £6.3 billion, an increase of 26% compared with last year. This continues a trend that has seen overpayment debt rise every year for the past decade as the Department's benefit expenditure levels and the overpayment rate have increased. Separately, there is £1.3 billion of debt in relation to benefit advances, nearly all of which relates to Universal Credit (**Figure 5**). The Department has impaired £3.0 billion (39%) of these outstanding amounts, meaning that it considers this amount of the debt to be potentially unrecoverable (see Note 13 to the Accounts).

**46** Most overpayments are not recovered. In addition to the overpayment debt shown in the accounts, there are likely to be substantial amounts that are not recorded because the Department does not detect all overpayments it makes. It cannot collect amounts of debt that are estimated but not detected. For example, in 2021-22 there was an estimated £7.7 billion of overpaid expenditure across all benefits, excluding Housing Benefit.[9] By 31 March 2022, the Department had detected and recorded £648 million of overpayments relating to 2021-22 for recovery. This suggests that so far around 8% of total estimated overpayments relating to 2021-22 have been detected and recorded, where the Department can identify the individual claimant who has been overpaid and attempt recovery. It is likely to detect and record further 2021-22 overpayments in subsequent years. For example, this year it recorded around £840 million of further debt relating to 2020-21 overpayments, reducing the gap between estimated and detected overpayments.

## Fraud and error in Universal Credit advances

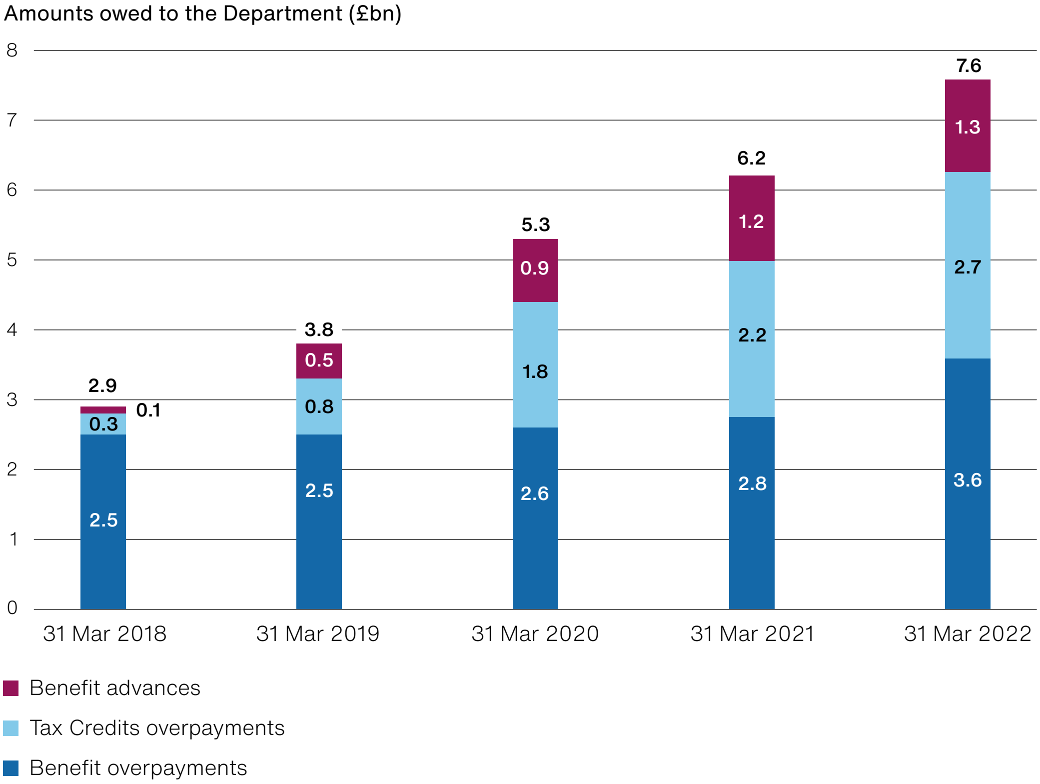
**47** Universal Credit advances misuse is a high priority to address for the Department. This year, in response to recommendations made by the National Audit Office and the Committee of Public Accounts, the Department made a first attempt at estimating the levels of fraud and error in advances paid to Universal Credit claimants in respect of new claims. It estimates that total overpaid Universal Credit advances for 2021-22 are in the range of £20 million to £85 million (2.8% to 12.4%). It estimated these levels using a combination of assumptions, observed trends and the annual fraud and error statistics, and the results are therefore not directly comparable to the estimates of fraud and error in relation to other benefits.

9 The Department is not responsible for overpayment debt recovery for Housing Benefit because this is the local authorities' responsibility and therefore it is excluded from the estimate of total overpayments here.

## Figure 5

The Department for Work & Pensions' (the Department's) gross debt relating to benefit overpayments, Tax Credit overpayments and benefit advances, 31 March 2018 to 31 March 2022

**Most of the increase of debt in 2021-22 related to benefit overpayments**




**Notes**

1 The three categories presented in this chart have been included because they are debts relating to fraud and error in benefit expenditure. Values presented here exclude Housing Benefit because local authorities are responsible for recovering this debt.

2 Benefit advances are treated as an overpayment for recovery purposes.

3 In April 2016 the Department started to take on debt associated with HM Revenue & Customs Personal Tax Credits for customers who had migrated to Universal Credit. The debt transfer is planned to continue to over the coming years as more customers move to Universal Credit. Once Tax Credit debts are received, the Department applies the same accounting policies as for benefit overpayments.

Source: National Audit Office analysis of the Department for Work & Pensions' Annual Report and Accounts, 2017-18 to 2021-22

**48** The Committee of Public Accounts has also recommended that the Department make progress in tackling advances fraud. As part of its response, the Department has trialled a risk model to detect fraud in Universal Credit advances claims. This model analyses information from historical fraud cases to predict which cases are likely to be fraudulent in the future.[10] Cases scored as potentially fraudulent by the model are flagged to caseworkers, who then prioritise the review and processing of such cases accordingly. In 2021-22 the model has been run to detect fraud in advances claims already in payment. The Department expects to trial the model on claims before any payment has been made early in 2022-23. If successful this could improve its ability to prevent fraud before these benefits are paid out, avoiding the need to seek recovery.

**49** The Department is aware of the potential for such a model to generate biased outcomes that could have an adverse impact on certain claimants. For instance, it is unavoidable that some cases flagged as potentially fraudulent will turn out to be legitimate claims. If the model were to disproportionately identify a group with a protected characteristic as more likely to commit fraud, the model could inadvertently obstruct fair access to benefits. There is also the potential for legal risks if the Department were found in breach of its obligations regarding transparency or data protection. The Department has attempted to manage these risks in the following ways:

- **Pre-launch testing and continuous monitoring.** Officials checked the model's test results before launch to ensure that they were accurate. The Department intends to continuously monitor the model's outcomes for inaccuracies, unintended bias and unfairness.

- **'Fairness' analysis.** The Department has looked at the distribution of false positive results across groups with protected characteristics in order to identify any disproportionate impacts. So far, this analysis has only been performed for three groups and the results are inconclusive.

- **Meaningful human involvement in decision-making.** Although the model identifies potentially fraudulent claims, the final decision about whether a claim is legitimate is always made at the discretion of one of the Department's caseworkers.

- **Caseworkers are not told why each case has been flagged for review.** As a precaution, a random selection of claims judged not fraudulent by the model are flagged to caseworkers for review. This is to discourage caseworkers from assuming that all cases flagged by the model are fraudulent, and to enable the Department to monitor the accuracy of decision-making.

10 This analysis is performed by a machine learning algorithm. The algorithm builds a model based on historic fraud and error data in order to make predictions, without being explicitly programmed by a human being.

## The Department's long-term plan to reduce fraud and error

**50** Before the COVID-19 pandemic I set out 13 strategic recommendations that the Department agreed would help it to reduce fraud and error and produce accounts that are free from material irregularity. I set these out in my Report last year and continue to monitor the Department's progress against them. There are two areas in particular where it needs to show more progress:

- The Department has agreed an ultimate goal of demonstrating a cost-effective control environment to manage fraud and error. This will allow it to focus its efforts and to show that it is doing all that it reasonably can to reduce fraud and error. However, it still needs to establish better evidence of the cost and effectiveness of each of its controls. Its experience over the pandemic has put it in a better position to do this.
- The Department has chosen not to publish targets for fraud and error reduction in benefit expenditure, despite previously committing to publishing at least an overall target by autumn 2021. This is because it does not consider that it is able to set a meaningful target given the uncertainty in baseline levels of fraud and error in post-COVID benefit claims, as well as the increasing propensity for fraud across society. Despite this uncertainty, the Department has modelled expected levels of fraud and error, which it is using internally to evaluate its strategy, but it does not consider this to be robust enough to report publicly. Publishing targets by benefit is important because they would enhance transparency and enable better dialogue between the Department and Parliament on what progress is being made.

**51** In 2021 the Committee of Public Accounts recommended that the Department put in place a framework that allows a consistent basis for reporting how much money has been lost or saved for the taxpayer as a result of action to prevent fraud and error. The Department has started to develop metrics that will show the return on investment of its counter-fraud and error activities (see page 70 of the Annual Report). However, these statistics remain experimental and require further development before they can provide an appropriate framework for estimating the amount saved for the taxpayer.

**52** The Department considered my 13 strategic recommendations and lessons learned from its approach to fraud and error in the pandemic in formulating its five-year plan to reduce fraud in benefit expenditure; *Fighting Fraud in the Welfare System*.[11] Its organising principles for addressing fraud are to prevent fraud entering the system in the first place, to detect and root it out when it does, and to deter would-be fraudsters through a robust penalty system. In response to the heightened level of fraud in its claimant base and society since the pandemic, the Department's strategy is to enhance its ability to fight fraud on three main fronts:

- **Investing in counter-fraud activities.** This includes a significant increase in headcount and a portfolio of transformation projects;
- **Creating new legal powers.** This includes powers of access to third-party data, and to make arrests and carry out searches and seize evidence; and
- **Working closely with the public and private sectors.** This includes the new Public Sector Fraud Authority, HMRC, and external experts to improve the use of data in preventing fraud.

**53** In line with this plan, the Department is investing £613 million over the next three years to enhance its capability to tackle fraud and error (**Figure 6** on pages 26 and 27). Most of this funding will be used to recruit and train significant numbers of additional staff for frontline counter-fraud activities. The next largest portion will be spent on an exercise to review and correct two million open Universal Credit cases, which will require recruitment and training of a further 2,000 staff. This generates uncertainty around delivery timelines, including how quickly staff can be recruited, be trained, and become fully productive. The Department expects this investment to prevent £4 billion of loss in fraud and error over the next five years. But it has not set out how its plans will achieve the 6.5% fraud and error rate implied in the Universal Credit business case. The Office for Budgetary Responsibility has noted uncertainty relating to the baseline level of fraud and error before these interventions – in particular, whether and how the spike recorded in fraud and error during the pandemic would have subsided in their absence.[12]

11 Department for Work & Pensions, *Fighting Fraud in the Welfare System,* May 2022. Available at: www.gov.uk/government/publications/fighting-fraud-in-the-welfare-system/fighting-fraud-in-the-welfare-system--2#fn:19

12 Office for Budgetary Responsibility, *March 2022 Economic and Fiscal Outlook*, Annex A - Policy measures announced since October 2021, page 208 "DWP fraud and error". Available at: https://obr.uk/docs/dlm_uploads/Annex-A-3.pdf

## Cost of living support

**54** In May 2022 the Chancellor announced a package of support worth over £15 billion to help households with the rise in the cost of living. This package includes a one-off grant of £400 to all households to help with energy bills. It also includes several measures that will be administered by the Department:

- **£650 one-off cost of living payment for people on means-tested benefits.** More than eight million households on means-tested benefits will receive a payment of £650 this year, made in two instalments, the first in July and the second in the autumn.[13]
- **£300 one-off pensioner cost of living payment.** Over eight million pensioner households that receive the Winter Fuel Payment will be paid an extra £300 this year to help them cover the rising cost of energy this winter. This will be paid on top of any other one-off support they are entitled to, for example Pension Credit or disability benefits.
- **£150 one-off disability cost of living payment.** Around six million people across the UK who receive a disability benefit will receive a one-off payment of £150.[14] For disability benefit recipients who also receive means-tested benefits, this £150 will be on top of the £650 they will receive separately.
- **£500 million increase and extension of the Household Support Fund.** The Department will provide additional funding to local authorities to support households most in need with basic essentials such as food, clothing and utilities. This covers a wide range of low-income households, including families with children of all ages, pensioners, and those who cannot increase their income through work. This funding will extend the Household Support Fund from October 2022 to March 2023, and bring the total amount provided to £1.5 billion since October 2021.

The one-off payments will be made directly to eligible people across the UK, so claimants do not need to take any action. The payments will be tax-free, will not count towards the benefit cap, and will not have any impact on existing benefit awards. It is likely that there will be a fraud and error impact associated with these measures that we expect the Department to assess in due course.

13 This includes all households receiving the following benefits: Universal Credit, Income-based Jobseeker's Allowance, Income-related Employment and Support Allowance, Income Support, Working Tax Credit, Child Tax Credit, and Pension Credit.

14 This includes people in receipt of: Disability Living Allowance, Personal Independent Payment, Attendance Allowance, Scottish Disability Benefits, Armed Forces Independence Payment, Constance Attendance Allowance, and War Pension Mobility Supplement.

## Figure 6

The Department for Work & Pensions' (the Department's) spending allocation for counter-fraud and error activities

**The Department plans to invest £613 million over three years to tackle fraud and error, mostly on front-line recruitment and a review of two million Universal Credit claims**

Prevent | Detect | Pursue

**An additional 2,000 front-line staff into Counter Fraud, Compliance and Debt (CFCD) operations (£341 million)**

Including 1,400 staff in counter-fraud roles, enabling the Department to conduct more compliance and counter-fraud work. Planned recruitment is on track to be achieved by Summer 2022. This will bring the total staff working in counter-fraud to 9,500 full-time equivalents. However, the Department expects that prioritisation of resource will still be necessary as this is below its demand forecast.

Learning from the pandemic, the Department expects to embed a more flexible approach to resourcing, with staff trained in multiple areas who can rotate into additional roles in response to need.

**Additional investment in Spring Budget 2021 measures + Fraud and Error Directorate (FED) transformation (-£43 million in savings)**

### Prevent

**Enhanced Checking Service (ECS) expansion**

A team set up during the pandemic to scrutinise risky claims before payment. Generates some of the highest levels of savings across all counter-fraud activities

**Verify Earnings and Pensions Service**

Enables Local Authority users to use Real Time Information data to verify claimant earnings and pension information. Prompts users to access the service when there is a change in claimant details.

**"Apply for a NINO"**

Self-service digital application allowing users to apply for a National Insurance number (NINO) entirely online without face-to-face interaction or document photocopies. Set up during pandemic in response to social distancing and redeployment of staff to Universal Credit.

### Detect / Pursue

**Targeted Case Review of two million Universal Credit claims (£187 million)**

A total of 2,000 staff will be recruited to review two million open Universal Credit claims most likely to be fraudulent over three years, taking corrective action where fraud and error is identified.

This will employ data analytics techniques which have been in development to identify high risk claims, and the intelligence gathered will inform future preventative activity. Expected to prevent around £2 billion of fraud and error loss over five years.

A trial with 37 agents began in March 2022 to test the intervention. If successful, the Department will expand this during 2022-23.

### Detect

**Economic, Serious and Organised Crime (ESOC) expansion**

A team of specialists that handle large and sophisticated attacks by fraudsters. Increasingly dealing with crypto-currency as a means to launder stolen money.

**Integrated Risk and Intelligence Service (IRIS) expansion**

IRIS develops data analytics techniques to enhance the Department's ability to detect and prevent fraud and error.

### Pursue

**Debt Enforcement (£24 million)**

A specialised team focused on managing hard to collect debt, including attempting to secure repayment through enforcement action. Expected to recover around £93 million by 2026-27. The Department has acknowledged it will be challenging to resource and train the number of agents required. Launched in February 2022.

**New Debt IT System**

Replacing the Department's aging debt management IT infrastructure. Launched in October 2021.

### Prevent

**Quality Assurance Team**

### Detect

**Virtual Control Centre for Surveillance**

### Pursue

**"Repay my Debt"**

Self-service online portal for customers to deliver efficiencies in debt management.

### Prevent / Detect

**Transaction Risking (TxR)**

Data analytics technique used to identify claims that are potentially fraudulent, based on analysis of historical cases. The Department has deployed TxR in the detection of potentially fraudulent open claims and is trialling its use earlier in the claim process to prevent payment of fraudulent claims entirely.

**December 2021 announcement (£510 million)**

Counter fraud funding in addition to the Spring Budget 2021:

- CFCD recruitment (**£341 million**)
- Targeted Case Review (**£187 million**)
- Debt Enforcement (**£24 million**)
- Extended Spring Budget 2021 activities (**-£32 million**)
- FED Transformation (**-£11 million**)

**Spending Review 2021 (£103 million)**

Funding for a portfolio of initiatives to enhance the Department's ability to tackle fraud and error, announced at the Spring Budget 2021.

Includes investment in automation and modernisation across the Counter Fraud, Compliance and Debt directorate, and permanently embedding pandemic-era activities such as the Enhanced Checking Service.

**Notes**

1 Numbers may not sum due to rounding. Financial values shown as negatives are savings for the taxpayer.

2 The Department's approach is to prevent fraud entering the system in the first place, to detect and root out fraud when it does, and to deter would be fraudsters through a robust penalty system, including recovering debt owed.

3 The Department was unable to provide a breakdown for the £103 million of measures announced at the Spring Budget 2021.

Source: Department for Work & Pensions strategy documents and spending data

## Progress in addressing the systemic underpayment of State Pension

**55** The Department became aware of potential issues with underpayment of State Pension entitlements in Spring 2020 after a series of cases involving official error were highlighted in the media. In January 2021 the Department launched an exercise to review around 400,000 cases 'at risk' of underpayment to confirm the extent of the issue and reimburse affected pensioners. This process is known as a Legal Entitlements and Administrative Practice (LEAP) exercise and is intended to ensure that the Department has met all its legal responsibilities. The Department recognised a £1 billion provision in its 2020-21 Accounts, reflecting its best estimate of the amount it would need to pay in arrears to affected pensioners. These pensioners were estimated to number around 132,000, falling into three main groups: married, widowed, and over-80 (see Note 16 to the Accounts).

**56** In 2021-22 the Department has refined its best estimate by performing the additional scans of its pension systems that it was unable to do last year due to planned system upgrades. It now estimates that it underpaid £1.46 billion to 237,000 pensioners (**Figure 7**), and will need to review around 700,000 potentially affected cases to complete the LEAP exercise. Of this 700,000, around 13% are New State Pension cases. This is an increase of £429 million compared with 2020-21, but it remains within the range of uncertainty that the Department initially set out of between £620 million and £2.8 billion. The major changes include:

- an increase of £507 million in the estimated amount owed to widowed pensioners;
- reductions of £9 million and £69 million in the estimated amounts owed to married and over-80 pensioners, respectively; and
- an increase in the estimated number of affected pensioners from 132,000 to 237,000.

**57** Estimates for the married and over-80 groups are more likely to be accurate because they are based on:

- scans of the Department's pension systems, to identify possible cases; and
- a sampling exercise, to evaluate the likely payment value of a sample of cases.

Sampling has not occurred for the widowed group, which means that there is more uncertainty in this element of the provision. The final value of the liability and the number of pensioners affected will only become clear once the Department has completed the LEAP review of all potentially affected cases.

## Figure 7

Value of State Pension underpayments and number of pensioners affected as estimated by the Department for Work & Pensions (the Department), March 2021 and March 2022

**The Department now estimates it underpaid 237,000 pensioners a total of £1.46 billion**

| Pensioners affected | Estimated amounts underpaid at 31 March 2021 | Estimated amounts underpaid at 31 March 2022 | Estimated number of pensioners affected at 31 March 2021 | Estimated number of pensioners affected at 31 March 2022 |
|---|---|---|---|---|
| | (£m) | (£m) | | |
| Married | 332 | 323 | 53,000 | 57,000 |
| Widowed | 560 | 1,067 | 43,000 | 141,000 |
| Over-80 | 142 | 73 | 36,000 | 39,000 |
| **Total** | **1,034** | **1,463** | **132,000** | **237,000** |

**Notes**

1 The estimated number of pensioners affected has been rounded to the nearest 1,000. The estimated value of underpayments has been rounded to the nearest £1 million.

2 The Department does not expect to repay all affected claims. For instance, it does not expect to be able to trace the next-of-kin of all deceased customers.

3 In 2021-22 the Department paid out around £106 million in arrears to affected pensioners (see page 83 of the Annual Report). The outstanding provision at 31 March 2022 is £1.35 billion (see Note 16 to the Accounts).

4 The underpayments are the cumulative result of human error going back at least thirty years and primarily affect three groups of people. These are set out below, and in more detail in Note 18 to the Accounts:

- Married pensioners (spouse top-up). People who are married or in a civil partnership who reached State Pension age before 6 April 2016 and may be entitled to a Category BL uplift based on their partner's National Insurance contributions.
- Widowed pensioners ('missed conversions'). People who have been widowed and whose State Pension was not uplifted to include amounts they were entitled to inherit from their late husband, wife, or civil partner.
- Over-80 pensioners ('Category D'). People who have not been paid Category D State Pension uplift as they should have been from age 80 and may be entitled to a minimum basic pension higher than their current payment.

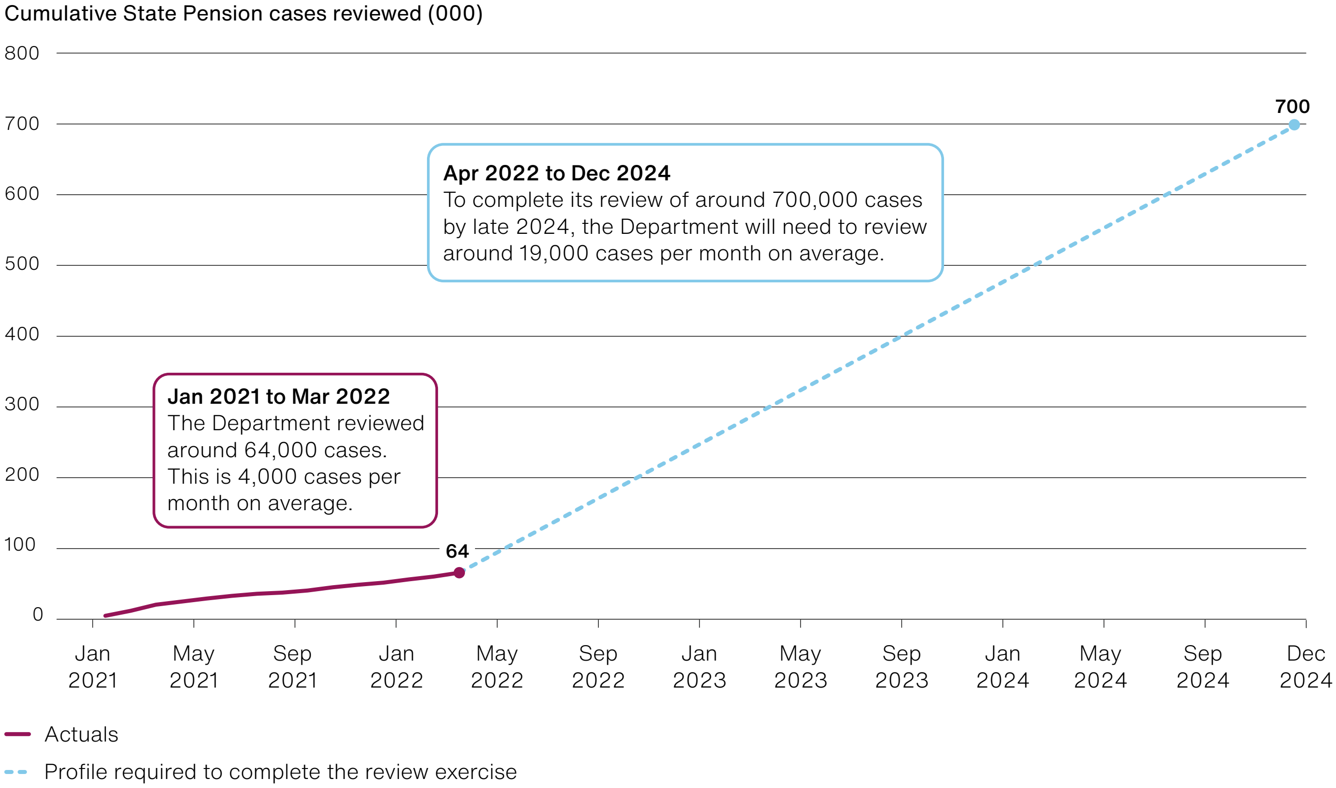
Source: National Audit Office analysis of Department for Work & Pensions financial and management information

**58** The Department still aims to complete its review of the married and over-80 groups by the end of 2023, but is reassessing its delivery plan for the widowed pensioner group. This is because the number of potentially affected pensioners identified has increased from around 400,000 to around 700,000, predominantly relating to widowed pensioners. The provision in the financial statements reflects its current assessment that the review and correction of all widowed pensioner cases may take until late 2024. It will need to significantly increase the speed at which it reviews cases to complete the LEAP exercise on schedule. By February 2022, one-third of the way into the exercise, the Department had reviewed around 60,000 out of 400,000 cases initially identified for review, and paid out less than 10% of the amount it estimated was outstanding. It will need to achieve an average review rate several times faster than this in the future in order to complete the LEAP exercise by late 2024 (**Figure 8** overleaf).

## Figure 8

The Department for Work & Pensions' (the Department's) progress in reviewing State Pension cases potentially affected by underpayment

**The Department will have to significantly increase the speed at which cases are reviewed to complete the exercise by late 2024**




Notes

1 Around 700,000 is the latest estimate for the number of State Pension cases potentially affected State Pension cases that the Department will need to review to know the full extent of its error and to correct any underpayments.

2 At March 2022, the Department had around 460 staff in place to process cases.

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

**59** The Department's delivery plan for the LEAP exercise is highly dependent on assumptions about recruitment, onboarding times, productivity, and retention of trained staff. For example, it expects to recruit or train over 1,000 additional staff to process cases. At March 2022, it had around 460 staff in place processing cases. The Department is also developing automation to process some of the cases, which it says it will deploy in July 2022. It has acknowledged that any setbacks to recruitment or productivity could have an impact on its plan, and that delays would increase the value of arrears owed by the Department. The Department's plan does not adjust for the fact that toward the end of the exercise there is likely to be a higher proportion of more complex cases relating to widowed pensioners, and that additional training time will be needed to redeploy staff from married and over-80 pensioner cases to widowed cases.

**60** The National Audit Office, the Committee of Public Accounts, and the Work and Pensions Committee have made a series of recommendations around State Pension underpayment. These relate primarily to the speed and transparency of communications of the LEAP exercise, the Department's assurance processes and its ability to detect the systemic causes of underpayments. For instance, the Chairs of the Public Accounts Committee and the Work and Pensions Committee have expressed concern that the Department's guidance to pensioners regarding potential underpayment was inadequate and could discourage pensioners from taking action to obtain their full entitlement. In my 2021 Investigation into the underpayment of State Pension I identified three main areas for improvement. I provide an update on the Department's activity against these areas in **Figure 9** overleaf.[15]

15 Comptroller and Auditor General, *Investigation into the underpayment of State Pension,* Session 2020-21, HC 665, National Audit Office, September 2021.

## Figure 9

The Department for Work & Pensions' (the Department's) response to areas for improvement suggested by the National Audit Office in September 2021

**The Department has taken the following steps towards addressing areas identified for improvement**

**1) Improving prompt redress and increasing transparency over the exercise to redress State Pension underpayments.**

- The Department has committed to report on progress of cases reviewed and did so in October 2021 and March 2022.
- The Department is developing processes to automate case review for widowed pensioners in order to speed up the exercise. It expects to implement this in July 2022.
- The Department has not significantly altered its communications to potentially affected pensioners. The Department maintains that information on Gov.uk and in a leaflet that is sent out each year is sufficient. It has also stated that user feedback in the past 12 months on Gov.uk pages relating to State Pension has not suggested the need for any changes. However, the Department says it will consider the feasibility of doing more to understand the effectiveness of its communications on this issue.
- The Department reports that it is working towards providing a more direct route for those enquiring about underpaid State Pension in respect of a deceased customer and intends to update Gov.uk by summer 2022.

**2) Strengthening controls and quality assurance processes.**

- In April 2022 the Department reported that it has improved its Customer Account Management system for State Pension. The system will now prompt agents to take specific action before a case can be closed, which the Department expects will prevent the errors identified as part of the State Pension underpayment Legal Entitlements and Administrative Practice (LEAP) exercise from happening again.
- The Department has stated that it has invested in specialist teams to handle new, more complex State Pension claims, and that it is delivering enhanced training to all staff dealing with State Pension cases.
- The Department has reviewed its Quality Framework, which will apply to the State Pension LEAP exercise. This now emphasises customer experience and ensuring that staff get the basics right and are consistent in complying with instructions. The Department says this will provide an 'early warning system' and allow prevention and early detection of issues, including reducing potential future LEAP risks. However, the Department has not set out plans for specific new controls over business-as-usual State Pension work.

**3) Improving detection of the systemic causes of underpayments across the Department.**

- In January 2022 the Committee of Public Accounts recommended that the Department explain how it had assessed the risk of systemic underpayments to divorced women, an additional group identified as potentially affected, as well as systemic underpayments in general.
- The Department responded by pointing to its annual review of State Pension cases, stating that in future it will use sampling exercises such as this as part of its overall prevention and detection strategy to assess whether there are further systemic underpayments. However, these exercises are not designed to identify low value errors that accumulate over many years (see paragraph 61).
- The Department invited the Government Internal Audit Agency to review State Pension legislation going back to 1995 to identify potential causes of further underpayments.

**Notes**

1 High-level areas for improvement as published in *Investigation into the underpayment of State Pension* (National Audit Office, September 2021). Available at: www.nao.org.uk/wp-content/uploads/2021/09/Investigation-into-underpayments-of-State-Pension.pdf.

2 The Department has published its progress with the LEAP exercise on GOV.UK. Available at: www.gov.uk/government/publications/state-pension-underpayments-progress-on-cases-reviewed-to-28-february-2022/state-pension-underpayments-progress-on-cases-reviewed-to-28-february-2022.

Source: National Audit Office analysis of Department for Work & Pensions documents, the Committee of Public Accounts reports, National Audit Office reports, and Treasury Minutes

**61** In 2021-22 the Department identified several new groups of pensioners potentially affected by underpayment, the most significant relating to Home Responsibilities Protection (see paragraph 35). The Committee of Public Accounts, among other stakeholders, has raised concerns that there may be other groups of pensioners subject to underpayment that remain undetected - for example divorcees. The Department cannot rule out that there may be further groups of pensioners, as yet unidentified, that have been affected by a historic underpayment. It has not set out plans to revise its specific controls over State Pension casework to ensure that underpayments are detected and recorded at the point of payment. Instead, it says it will identify underpayments through sampling exercises such as its existing annual benefit measurement. However, these exercises are not designed to detect systemic issues that are low value in any single year but have a large impact on individuals over many years. The Department asked the Government Internal Audit Agency to review State Pension legislation to identify areas where there is a risk of further potential underpayment, but has not reviewed the controls around State Pension administration in the same way. The Department should therefore act in line with previous recommendations to ensure that its controls over State Pension are adequate to prevent and detect official errors near the point of underpayment in order to mitigate the risk of further systemic issues in future.

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