National Audit Office

REPORT

Report on Accounts

Department for Work & Pensions

REPORT

by the Comptroller and Auditor General

JULY 2023

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Report on Accounts

Department for Work & Pensions

Report by the Comptroller and Auditor General
as set out in pages 271 to 310 of the Department for Work & Pensions,
Annual Report and Accounts 2022-23, Session 2022-23, HC 1455

Gareth Davies
Comptroller and Auditor General
National Audit Office

29 June 2023

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Summary

Fraud and error in benefit expenditure

1 The Department for Work & Pensions (DWP) 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. Where fraud or error leads DWP to either over-or under-pay benefits, the benefit is not paid in accordance with the legislation and regulations and the over- or under-payment is deemed 'irregular'.

2 In 2022-23 DWP spent £234.8 billion on benefits and State Pension payments to claimants and pensioners.[1] Of this, £109.6 billion was spent on State Pension, £109.1 billion was on other benefits paid directly by DWP and £16.1 billion was for Housing Benefit paid on its behalf by local authorities. Benefit and State Pension expenditure represents 98% of DWP's total operating expenditure of £240.1 billion. The remaining expenditure relates to DWP's running costs including staff remuneration.

3 This report sets out:

- the reasons and context for my qualified opinion, as Comptroller and Auditor General (C&AG), in relation to fraud and error in benefit expenditure (Part One);
- the estimated level and causes of overpayments in the benefit system (Part Two);
- the estimated level and causes of underpayments in the benefit system (Part Three);
- DWP's plans to tackle fraud and error and to report transparently on its progress (Part Four); and
- specific actions to tackle fraud and error (Part Five).

1 Audited total expenditure on benefits in 2022-23 was £234.8 billion, as reflected in the Statement of Comprehensive Net Expenditure for the core Department. Note 18 to DWP's accounts sets out estimated total expenditure on benefits of £233.8 billion, which represented the latest available forecast for 2022-23 at the time DWP produced the fraud and error estimates.

Key findings

Qualification

4 **I have qualified my opinion on the regularity of DWP's 2022-23 financial statements due to the level of fraud and error in benefit expenditure.** This is the 35th year in which DWP's accounts have been qualified due to material fraud and error. This year, I have also included the new Cost of Living Payments in the qualification as they are estimated to contain 4.9% (£410 million) of overpayments due to fraud and error in the underlying benefit claim. I have again excluded expenditure on State Pension from my qualified opinion because DWP estimates that it overpaid 0.1% of State Pension payments and underpaid 0.6% of State Pension payments, which is not material to a reader's understanding of the accounts (paragraphs 1.1 to 1.14 and Figure 1).

Overpayments

5 **The amount of benefits overpaid by DWP fell in 2022-23 from its peak during the COVID-19 pandemic but remains significantly above pre-pandemic levels.** DWP estimates that the amount of benefits (excluding State Pension) that it overpaid peaked in 2021-22 at 7.7% (£8.6 billion). This fell to 6.6% (£8.2 billion) in 2022-23. Also excluding Cost of Living Payments, which were introduced as a temporary measure, the overpayments would have been 6.7% (£7.8 billion). By contrast, DWP overpaid 4.7% (£4.4 billion) excluding State Pension in 2019-20 before the pandemic (paragraphs 2.7 and 2.8).

6 **Most of the fall in the amount DWP overpaid benefits related to fraud in Universal Credit.** The amount of Universal Credit that DWP overpaid fell from 14.7% (£5.9 billion) of expenditure in 2021-22 to 12.8% (£5.5 billion) in 2022-23. Claims made at the height of the pandemic were overpaid by 28.4% in 2020-21, and DWP was still overpaying them by 21% in 2022-23. However, these are becoming a smaller proportion of the claims still in payment. DWP estimates that Universal Credit claims started after the COVID-19 peak (March to June 2020) were overpaid by 13.1% in 2022-23. This remains significantly higher than the 9.4% that it overpaid all Universal Credit claims in 2019-20 (paragraphs 2.2 and 2.3).

7 **Universal Credit overpayments fell primarily due to fewer self-employed people understating their income.** This was mainly due to a fall in the level of self-employment claimants and the reintroduction of rules designed to prevent self-employed claimants understating their income. It is too early to see any movement in the level of fraud and error from DWP's 2022 *Fighting Fraud in the Welfare System* plan (paragraphs 2.7, 2.8, 4.2 and Figure 7).

8 **On average 33% of Universal Credit claims were incorrect in 2022-23, equivalent to 1.6 million claims.** Most of these claims (24% of all Universal Credit Claims) were overpaid. DWP made at least one overpayment due to claimant fraud in 18% of cases and there was at least one error by the claimant in their favour in 6%. DWP made at least one overpayment error in 3% of Universal Credit cases. These estimates exclude small over- and under-payments below 10p. Around 40% of overpaid claims were to people with no entitlement to any payment at all, which is equivalent to 10% of all Universal Credit claims. Some of these were marginal cases where small amounts of undeclared income or claimant circumstances (such as attending hospital) made the whole claim invalid. However, some other claims were overpaid as much as £1,800 per month; some were completely fictional; and some related to serious and organised crime (paragraphs 2.9 to 2.13 and Figures 3 and 4).

Underpayments

9 **The estimated amount of benefits underpaid by DWP increased to 1.4% (£3.3 billion) in 2022-23, the highest level on record.** This compares with 1.2% (£2.6 billion) in 2021-22. The increase in underpayments in 2022-23 was mostly due to claimant error in Personal Independence Payment (PIP). DWP also reports a number of historical underpayment issues in State Pension going back several decades. DWP's controls should detect large-scale underpayments in any year, but because it is reliant on detecting them through sampling, unknown problems can continue for many years. This means the build-up of underpayments and the need for correction exercises are likely to remain features of the benefit system for the foreseeable future (paragraphs 3.1, 3.24 and 3.25).

10 **Most of the rise in underpaid benefits was due to recipients of PIP failing to update DWP that their medical needs had increased.** DWP's estimate of underpaid PIP increased to 5.1% (£900 million) in 2022-23 from 3.8% (£570 million) in 2021-22. This is the first time that DWP has remeasured PIP since the start of the pandemic; the 2021-22 estimate was based on the 2019-20 measurement. DWP told us it was working to determine the reason for the rise in PIP underpayments since the start of the pandemic but that this may reflect the wider take-up of PIP and poorer health in the population since the pandemic (paragraphs 3.2 and 3.3).

11 **The level of State Pension underpaid by DWP has been trending upward for six years to 0.6% (£670 million) in 2022-23.** Most of these underpayments (£580 million) were a result of official error. DWP believes that part of the increase is due to changes in how it measures State Pension error and that its previous estimates may have been understated. This brings the total fraud and error rate for State Pension, including overpayments, to 0.7%. I will keep the gross level of incorrect payments in State Pension under review and may have to include State Pension in my regularity qualification in future years if the estimated rate continues to rise (paragraphs 3.4 and 3.5 and Figure 5).

12 DWP now estimates that 165,000 state pensioners have been underpaid £1.2 billion due to historical official errors relating to married pensioners, widows and people aged over 80. DWP first reported on this in 2020-21, and since then it has paid around 28% (£324 million) of the missing payments it estimates are due. These issues relate to where some married pensioners, widows and people aged 80 and above are being underpaid because their current payment is missing an additional entitlement. DWP has reduced its estimate since 2021-22, when it reported that 237,000 people had been underpaid £1.46 billion, as it now has more experience of reviewing customer records. DWP's current best estimate is that 165,000 pensioners were underpaid but it will not know for certain until it finishes reviewing the 678,000 cases it considers at risk. It has 415,000 of such cases left to review by the end of 2024 (paragraphs 3.6 to 3.9 and Figure 6).

13 DWP also estimates that 210,000 people have been underpaid a further £1.3 billion of State Pension due to historical issues relating to Home Responsibilities Protection (HRP). However, this estimate is very uncertain and could range from £310 million to £1.5 billion. These issues affect people (mostly women) who received Child Benefit before 2000 and whose National Insurance (NI) record was not updated to reflect periods of HRP they were entitled to. DWP cannot begin to correct cases until HM Revenue & Customs (HMRC), which administers both National Insurance and Child Benefit records, corrects the National Insurance records and notifies DWP. HMRC intends to begin work to identify people who may have missing HRP in autumn 2023 and will write to them to invite them to apply for missing periods of HRP to be added to their National Insurance record. However, it does not believe it will be possible to identify all the people with missing HRP because the Child Benefit records have been deleted to comply with data protection. HMRC and DWP are therefore planning a communications campaign to encourage people who think they have missing periods of HRP to come forward to check their National Insurance record (paragraphs 3.10 to 3.19).

14 DWP has identified that the National Insurance records for 10 million people claiming Universal Credit have not been updated properly – a small proportion of these may have also been underpaid their State Pension. HMRC began correcting records in February 2023 and expects this work to be completed by the end of March 2024. DWP has still to determine how many people have been underpaid and how much they were underpaid. Of those missing the Universal Credit National Insurance credits, 137,000 have already reached State Pension age. Some of these people may not have reached their maximum entitlement without those credits and may have been underpaid State Pension as a result. Until HMRC provides updated records, DWP has been manually updating the records as people approach State Pension age (paragraphs 3.20 to 3.23).

DWP's plan to reduce fraud and error

15 **DWP has set a target for monetary savings and developed an estimate of the savings generated in-year.** The Committee of Public Accounts (PAC) recommended that DWP develop both a target level of fraud and error and a way of reporting the performance of its counter-fraud activities. The target DWP has set is for the savings it will achieve from its counter-fraud activity and not the overall level of fraud and error remaining. Taken together with greater transparency over its forecasts and improved reporting of the performance of its counter-fraud activities, it should aid accountability over how it is tackling fraud and error and support DWP to focus its efforts. Over time, I hope this will enable DWP to explain how the rate of fraud and error is responding to its efforts rather than to external factors (paragraphs 4.3 to 4.7).

16 **DWP's methodology behind its counter-fraud savings reporting remains experimental and caution is needed in interpreting the estimates**. The savings estimate is made up of several sub-estimates, some of which DWP has lower levels of confidence in than others. DWP needs to refine the methodology and demonstrate that year-on-year movements in estimated savings can be reliably traced back to specific counter-fraud activities and changes in performance, rather than being a product of the methodology (paragraphs 4.13 to 4.17 and Figure 9).

17 **DWP's forecast suggests it will take at least until 2027-28 to reduce Universal Credit overpayments to below pre-pandemic levels.** DWP produced forecasts, forming part of the economic and fiscal outlooks set out at the Spring Budget 2023, published in March 2023, which expected overpayments of 9.3% for Universal Credit and 3.0% for all benefits in 2027-28. If achieved, this level of overpaid Universal Credit would be lower than the pre-pandemic level estimated in 2019-20 (9.4%). The forecasts are based on the expected demand for benefits and the make-up of that demand. They include a new assumption that the underlying propensity to commit benefit fraud will increase by 5% per year and that the activities that have received extra investment per DWP's counter-fraud plan have the expected impact. The actual levels of fraud and error published in the May 2023 statistics were higher than the forecast, but the forecast was within the margin of error of the statistics (paragraphs 4.8 to 4.11 and Figure 8).

18 **DWP estimates that it generated £1.14 billion of savings in 2022-23 through the dedicated counter-fraud and error activities against which its target will be measured.** The majority of 2022-23 savings (£650 million) came from the Enhanced Review Team (ERT), which provides a rapid response service for detailed checking of high-risk Universal Credit claims before they go into payment. The ERT is a part of the Counter Fraud and Compliance function, which saved £1.06 billion from spending of £283 million, which implies a return on investment of around 3.7:1. However, it is too early to identify a significant impact from other initiatives backed with additional funding in DWP's *Fighting Fraud in the Welfare System* plan which it outlined in 2022 (paragraphs 4.14 to 4.17 and Figure 9).

19 DWP has committed to generate £1.3 billion of monetary savings through these counter-fraud activities in 2023-24. The target level of £1.3 billion is based on expected savings that are consistent with the assumptions in the fraud and error forecast agreed with the Office for Budget Responsibility. This is more than was achieved in 2022-23 (£1.14 billion) but less than was achieved in 2021-22 (£1.66 billion) when there were one-off savings from preventing a single large ID fraud attack. These savings would have to grow significantly year-on-year to achieve the reduction in fraud and error to pre-pandemic levels outlined in its forecasts, if DWP's other assumptions prove to be accurate (paragraphs 4.21 to 4.23 and Figure 10).

20 DWP also estimates it saved an additional £16.52 billion through routine frontline processes which are outside the scope of its target. These include DWP updating benefit records when a claimant reports a change in their circumstances that would affect the amount they are paid. DWP estimates it saved £14.75 billion through these activities in 2021-22. Most of the increase for 2022-23 came from DWP performing more upfront health assessments to check claimants' eligibility for disability benefits, in line with higher demand. This estimate is too broad to be useful for assessing DWP's counter-fraud and error performance in any given year. However, it could be more useful when comparing across years to show how much fraud and error DWP is preventing upfront instead of detecting after it has happened. This will require DWP to refine the methodology, which is less robust than for the savings from its dedicated counter-fraud activities (paragraphs 4.18 to 4.20 and Figure 9).

21 DWP has introduced an alternative measure to track the impact of introducing Universal Credit on overpayments. On page 97 of the performance report DWP has set out an alternative measure that tracks overall overpaid welfare spending regardless of whether it meets the definition of fraud and error. It uses this to assess the changing impact of overpayments on the taxpayer while Universal Credit is being rolled out. It points out that under this measure overpayments had fallen to near to historic lows in 2019-20 prior to the pandemic. This alternative measure should be used with caution. There is a risk that people conflate and confuse it with the national statistic on fraud and error. It also does not properly describe the impact of introducing Universal Credit because it includes benefits that are not relevant to Universal Credit and does not capture all of the benefits of monthly assessment or faster recovery of overpayments (paragraphs 2.4 to 2.6 and Figure 2).

22 The most significant component of DWP's counter-fraud plan by value is a £443 million project to review millions of Universal Credit cases to root out incorrect payments. DWP expects this project, which it calls Targeted Case Reviews to generate some £6.4 billion of savings by 2027-28. Targeted Case Reviews are established and working as expected at small scale, but it is still early in the project lifecycle. To achieve the intended savings DWP needs to improve targeting, productivity, and ensure sufficient recruitment over the next two years (paragraphs 5.2 to 5.4 and Figures 11 and 12).

23 DWP is expanding its use of machine learning to identify potentially fraudulent benefit claims before they go into payment. Since 2021-22 DWP has been using a machine learning algorithm to prioritise the review of potentially fraudulent Universal Credit advance claims. This does not involve any automated decision-making. DWP is developing similar models for the main risk areas of Universal Credit. DWP says it is working toward fulfilling its commitment to report annually to Parliament on the impact of data analytics on protected groups and vulnerable claimants. DWP has governance and processes in place to monitor the bias of these models, but this is limited where it has not collected sufficient user data and where available data are segregated from its fraud and error analytics platform for security reasons. DWP told us it plans to migrate these data soon (paragraphs 5.5 to 5.7 and Figure 13).

Recommendations

24 I recommend that DWP should:

On underpayments

a work with HMRC to review the level of assurance over the integrity of National Insurance records and identify ways to reduce error in the records.

b establish an ‘early warning system’ to record types of underpayment errors that happen repeatedly and take action before they develop into significant issues. As part of setting up this system DWP should:

- encourage frontline staff to refer large or unusual underpayments for analysis;
- perform more in-depth analysis to determine the root cause of a greater number of detected underpayments; and
- develop the capability to record detected underpayments across all benefits as part of any planned updates to its IT systems.

On its experimental performance framework

c improve its experimental framework to further enhance transparency around its counter-fraud performance. DWP should aim to demonstrate that changes in its metrics are a result of its activity and not external factors, and to show how its activities are affecting the overall level of fraud and error. To achieve this DWP should:

- set targets for a greater number of individual benefits, prioritising benefits with the most significant levels of fraud and error;
- set its targets to cover a longer time horizon, to better align with the time its activities take to have an effect;

- regularly publish its fraud and error forecasts; and
- refine its savings estimate methodology to increase the level of confidence in each element so that it is robust enough to make year-on-year comparisons. This should include testing the assumptions where possible.

d continue to set an annual target for annually managed expenditure (AME) savings until it sets a target for the monetary value of fraud and error and do more to justify to Parliament that the target is sufficiently stretching.

e set out a roadmap for developing its performance framework and counter-fraud activities to a point where it can demonstrate that it is operating a cost-effective control environment.

On its alternative measure of overall overpaid welfare spending

f exercise caution in how it describes its measure of overall overpaid welfare spending to not conflate it with its existing measure of fraud and error, and replace its current methodology for the alternative measure to better focus on the impact of introducing Universal Credit on the cost of overpayments (as set out in the Universal Credit business case) by:

- focusing solely on Universal Credit and the benefits it replaces and excluding other benefits; and
- focusing on the annual financial savings to the Exchequer rather than a percentage overpaid so as to not conflate this measure with the monetary value of fraud and error and to better account for differences in recovery rate and measurement period.

On machine learning

g as part of its response to PAC due in November 2023, DWP should seek to improve public confidence in its use of advanced data analytics by committing to regularly publishing summaries of:

- its assessment of bias in machine learning models; and
- any impact on customer service.

On Targeted Case Reviews

h continue to scale Targeted Case Reviews and in doing so ensure it hits the level of recruitment and productivity required to achieve the expected savings over the Spending Review period; and

i collect information to provide assurance over the quality of customer service and report on this in its 2023-24 Annual Report and Accounts.

Part One

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

The basis of my qualification

1.1 I have qualified my opinion on the regularity of the Department for Work & Pensions' (DWP's) 2022-23 financial statements due to the material level of fraud and error in its benefit expenditure – with the exception of expenditure on State Pension, for which the level of fraud and error is significantly lower.

1.2 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.

1.3 Legislation specifies the entitlement criteria for each benefit and the method to be used to calculate the amount of benefit to be paid. DWP relies on claimants providing timely and accurate information, particularly when their circumstances change. The complexity of the benefit system can cause confusion and genuine error in both the claimants providing the information and DWP in processing it. Benefit payments are also susceptible to both deliberate fraud by individuals and organised crime attacks. 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.

How DWP estimates the levels of fraud and error in benefit expenditure

1.4 DWP sets out how it measures fraud and error in benefit expenditure on pages 93 to 95 of its performance report and pages 388 and 389 of the financial report. It estimates fraud and error through direct measurement of five or six benefits each year using a statistical sampling exercise. Where it does not directly measure the rate of fraud and error in a given year, DWP rolls forward the rate it used from the previous sampling exercises. For benefits that have never been measured, DWP makes an assumption of the rate, typically using a similar benefit as a proxy. The estimates are published annually as National Statistics. This year DWP has measured fraud and error in Universal Credit, State Pension, Housing Benefit, Employment and Support Allowance (ESA), Pension Credit and Personal Independence Payment (PIP). Overall, 80% of benefit expenditure for 2022-23 was subject to sampling.

My consideration of State Pension in my qualification

1.5 In reaching my regularity opinion, I consider the rates of irregularity due to fraud and error across each benefit. DWP estimates that it overpaid 0.1% (£100 million) of State Pension payments and underpaid 0.6% (£670 million) in 2022-23. I continue to regard the combined value of £770 million of irregular payments as immaterial in the context of the £109.6 billion of State Pension expenditure in the accounts. As a result, I exclude State Pension expenditure from my qualified opinion on the accounts.

1.6 I note that DWP's estimate of State Pension underpayments has been trending upward for six years – partly due to methodological changes in how it estimates the underpayments that identified new errors. I will keep the gross level of incorrect payments in State Pension under review and may have to include State Pension in my regularity qualification in future years if the rate continues to rise.

1.7 In Part Three of my report, I explain that DWP estimates it has underpaid £2.4 billion of State Pension due to historical errors. These occurred over a period of more than 30 years and as such I do not consider this a material irregularity in expenditure in the current year. However, I recognise that these underpayments of State Pension have had a significant impact on those affected and it remains crucial that DWP improves accuracy in all payments, not just those where I qualify my opinion.

My consideration of Cost of Living Payments in my qualification

1.8 My qualified opinion on the regularity of benefit expenditure includes Cost of Living Payments. These are designed to be a temporary initiative to provide extra payments to people on certain benefits to help them with the cost of living at a time of high inflation. In 2022-23, DWP made Cost of Living Payments of £8.4 billion. It expects to make further payments in 2023-24. DWP has estimated the level of fraud and error in these payments based on overpayment rates for the qualifying benefits. It estimated Cost of Living Payment overpayments were 4.9% (£410 million), which I consider to be material.

The material level of fraud and error in benefit expenditure other than State Pension in 2022-23

1.9 DWP sets out its estimates of the overall level of fraud and error in benefit expenditure on pages 95 to 98 of the performance report and pages 388 and 389 of the financial report. Because the rate of fraud and error in State Pension remains low, I report the level of fraud and error in benefit expenditure across all DWP benefits excluding State Pension. This also helps to show the trend in fraud and error in most benefits more clearly, because it excludes the impact of the increase in State Pension as a share of all benefit payments.

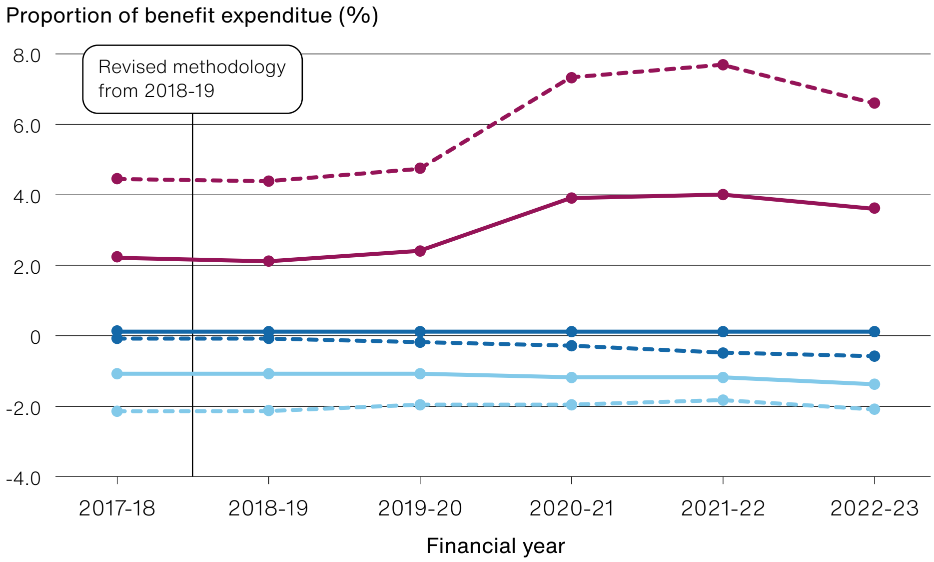
1.10 Excluding State Pension, DWP estimates that it overpaid a total of 6.6% (£8.2 billion) of benefit expenditure in 2022-23 (**Figure 1**). This is down from 7.7% (£8.6 billion) in 2021-22, which was the highest level since records began in 2005, but remains higher than levels before the COVID-19 pandemic. The decrease in overpayments was mostly due to a reduction in the level of Universal Credit fraud relating to self-employment earnings. I discuss this further in Part Two of my report.

1.11 DWP categorises incorrect benefit payments into Fraud, Claimant Error, and Official Error. The estimated 6.6% (£8.2 billion) of overpaid expenditure across all benefits (excluding State Pension) was comprised as follows:

- **Fraud accounted for £6.4 billion.** Fraud is where a claimant deliberately sought to mislead DWP to claim money that they were not entitled to.
- **Claimant Error accounted for £1.3 billion.** Claimant Error is where a claimant made mistakes with no fraudulent intent – for example if they provided inaccurate or incomplete information.
- **Official Error accounted for £560 million.** Official Error is where a benefit was paid incorrectly due to action, delay or a mistaken assessment by DWP.

Figure 1
Estimated levels of overpaid and underpaid benefit expenditure, 2017-18 to 2022-23

Fraud and error in benefit expenditure remains significantly elevated compared with pre-COVID-19 pandemic levels



	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
All overpayments	2.2	2.1	2.4	3.9	4.0	3.6
Overpayments (excluding State Pension)	4.4	4.4	4.7	7.3	7.7	6.6
All underpayments	-1.1	-1.1	-1.1	-1.2	-1.2	-1.4
Underpayments (excluding State Pension)	-2.2	-2.2	-2.0	-2.0	-1.9	-2.1
State Pension overpayments	0.1	0.1	0.1	0.1	0.1	0.1
State Pension underpayments	-0.1	-0.1	-0.2	-0.3	-0.5	-0.6

Notes

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

2 All data points are the Department for Work & Pensions' (DWP's) central estimates. DWP publishes its estimates for fraud and error in the benefit system annually as National Statistics (see source below). This publication provides full data going back to 2005-06 when DWP first started measuring fraud and error in this way.

3 DWP's 2022-23 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.

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 in the benefit system: financial year 2022 to 2023 estimates*

1.12 The Cost of Living Payments are designed to be a temporary initiative and will not form part of the longer term trend. When excluding both State Pension and temporary Cost of Living Payments, DWP estimates that it overpaid 6.7% (£7.8 billion) of benefit expenditure.

1.13 DWP estimates that it underpaid 2.1% (£2.6 billion) of benefits (excluding State Pension), which is a slightly higher rate than the 1.9% (£2.1 billion) underpaid in 2021-22. I discuss this further in Part Three of my report.

1.14 DWP's accounts have been qualified every year since 1988-89 due to material levels of overpayments and underpayments in benefit expenditure. DWP continues to face a considerable challenge in implementing its long-term strategy to reduce fraud and error and demonstrating that it is operating a cost-effective control environment for benefit delivery. I discuss this further in Part Four of my report.

Part Two

Overpayments

2.1 In this part of my report, I highlight:

- the level and cause of overpayments in Universal Credit; and
- overpayments in Cost of Living Payments.

Overpayments in Universal Credit

2.2 The majority of the Department for Work & Pensions' (DWP's) overpayments were in Universal Credit. DWP estimates that it overpaid 12.8% (£5.5 billion) of Universal Credit expenditure in 2022-23. This is a fall from 14.7% (£5.9 billion) in 2021-22, which was the highest level of any benefit since DWP introduced its methodology for estimating fraud and error in 2005-06.

2.3 DWP estimates that it overpaid less in 2022-23 than in 2021-22 to claimants who started their claim for Universal Credit during and after the height of the COVID-19 pandemic (DWP performance report pages 110 and 111). However, it overpaid both groups more than those that made their claim before the pandemic. The Universal Credit claims made during the height of the COVID-19 pandemic continue to push up the overall level of overpayments because they have a significantly higher rate of fraud and error. For:

- **pre-COVID-19 claims,** the overpayment rate was 10.9%, the same as in 2021-22;
- **claims started during the COVID-19 peak (March 2020 to June 2020),** the overpayment rate was 21.0%, compared with 28.4% in 2020-21; and
- **claims started after the COVID-19 peak (June 2020 onwards),** the overpayment rate was 13.1%, compared with 17.3% in 2021-22.

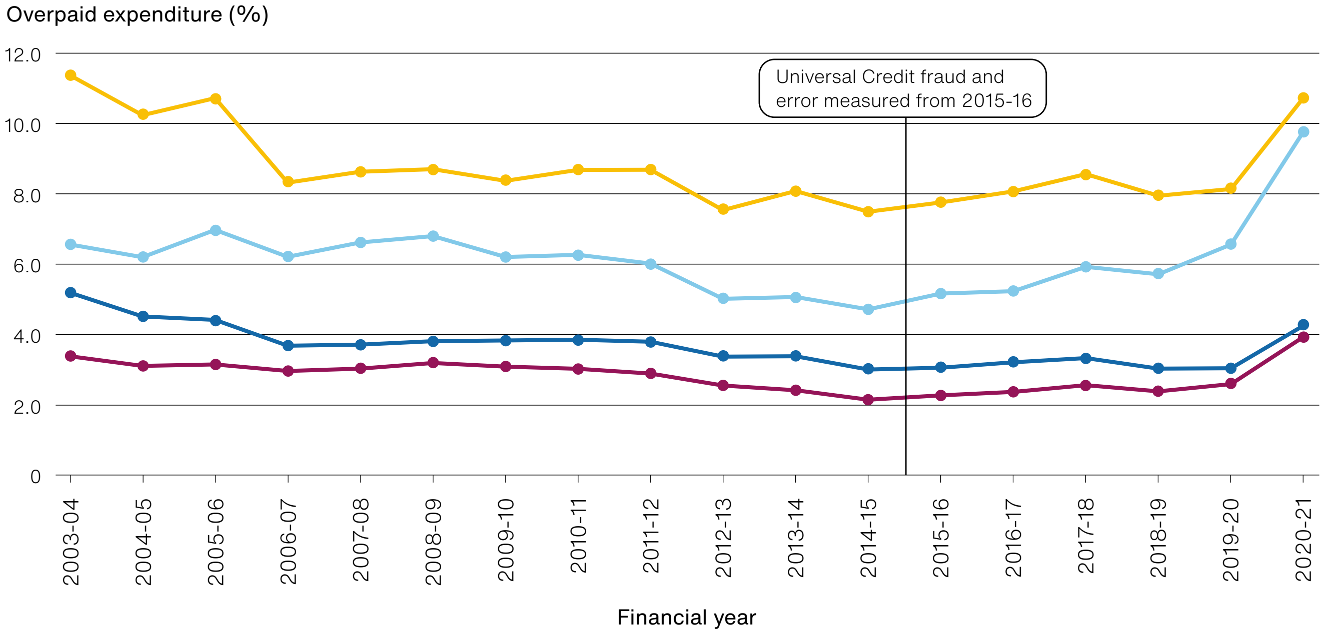
DWP's alternative measure of overall overpaid welfare spending

2.4 Fraud and error benefit overpayments were rising prior to the COVID-19 pandemic since the introduction of Universal Credit (**Figure 2** on pages 18 and 19). DWP estimated that it overpaid 1.8% of all benefits in 2014-15 before it started measuring fraud and error in Universal Credit and 2.4% of all benefits in 2019-20.

Figure 2

Overpayments in the Department for Work & Pensions' (DWP's) benefits and Tax Credits, using different measures, 2003-04 to 2020-21

DWP's alternative measure on page 97 shows overpayments across the welfare system falling to near historical lows prior to the pandemic (2019-20), but focusing solely on Universal Credit and the benefits it replaces shows overpayments rose since fraud and error in Universal Credit has been measured, but remain slightly below rates seen in the decade before Universal Credit was introduced



Fraud and error overpayments: All DWP benefits and Tax Credits	3.4	3.1	3.2	3.0	3.1	3.2	3.1	3.1	2.9	2.6	2.4	2.2	2.3	2.4	2.6	2.4	2.6	4.0
Fraud and error overpayments: Univeral Credit and the benefits it replaces (including Tax Credits)	6.6	6.2	7.0	6.2	6.6	6.8	6.2	6.3	6.0	5.0	5.1	4.7	5.2	5.2	5.9	5.7	6.6	9.8
DWP's alternative measure: All DWP benefits and Tax Credits	5.2	4.5	4.4	3.7	3.7	3.8	3.9	3.9	3.8	3.4	3.4	3.0	3.1	3.2	3.4	3.1	3.1	4.3
DWP's alternative measure: Universal Credit and the benefits it replaces (including Tax Credits)	11.4	10.2	10.7	8.3	8.6	8.7	8.4	8.7	8.7	7.5	8.1	7.5	7.8	8.1	8.6	7.9	8.1	10.7

Figure 2 *continued*

Overpayments in Department for Work & Pensions (DWP) benefits and Tax Credits, using different measures, 2003-04 to 2020-21

Notes

1 The Department for Work & Pensions' (DWP's) alternative measure does not show an increase in overpayments until 2020-21 due to the impact of increasing expenditure in State Pension. Excluding State Pension, all other measures show an increase in overpayments over this period.

2 Data for 2019-20 that feed into the alternative measure for 2019-20 have been restated since DWP reported on it in 2021-22.

3 There is a natural time lag in the provision of the Tax Credit data that feeds into the alternative measure, so we can only report it up to 2020-21.

4 DWP's alternative measure includes fraud and error in DWP benefits and Tax Credits, and in-year overpayments of Tax Credits, which do not meet the definition of fraud and error used in official statistics.

Source: National Audit Office analysis of the Department for Work & Pensions' and HM Revenue & Customs' fraud and error and overpayment statistics

2.5 On page 97 of its performance report, DWP sets out an alternative measure that tracks overall overpaid welfare spending regardless of whether it meets the definition of fraud and error. It uses this to assess the changing impact of overpayments on the taxpayer while Universal Credit is being rolled out. It points out that under this measure overpayments had 'fallen to near to historic lows' in 2019-20 prior to the pandemic.

2.6 This alternative measure should be used with caution and there is a risk that people conflate and confuse it with the national statistic on fraud and error. It is not an ideal performance measure because it:

- does not describe irregular expenditure – it includes in-year overpayments in Tax Credits which are a part of the design of Tax Credits;
- includes benefits that are not relevant to Universal Credit. If this measure only focused on Universal Credit and the benefits it replaces, it would show that it rose since fraud and error in Universal Credit has been measured, but remains slightly below rates generally seen in the decade before Universal Credit was introduced (Figure 2); and
- does not fully capture the benefits of assessing eligibility monthly rather than annually, and the faster recovery rate that Universal Credit has over Tax Credits, which reduces the cost of overpayments to the Exchequer.

Cause of the fall in overpayments in Universal Credit in 2022-23

2.7 DWP sets out its categorisation of Universal Credit overpayments on page 104 of the performance report. Most of the fall in Universal Credit overpayments was due to a reduction in misreported self-employment earnings. DWP estimates its overpayments due to self-employed earnings fell by 32% (£501 million) from £1.6 billion in 2021-22 to £1.1 billion in 2022-23. DWP's analysis suggests that there were two reasons for this fall:

- DWP has begun reintroducing controls over self-employed claimants that were suspended during the pandemic to help speed up benefit processing. DWP has been reinstating these controls, including the Gainful Self-Employment test and Minimum Income Floor, in a phased approach since August 2021. DWP does not expect the full impact of reinstating these controls to be seen until publication of its May 2024 and May 2025 statistics, respectively. For example, DWP estimates that the Universal Credit overpayment rate for 2022-23 could have been 12.4%, rather than 12.8%, had the Minimum Income Floor been in place.
- There was a fall in the number of self-employed claimants as a proportion of all Universal Credit claimants by around 20%, which may have been related to the reintroduction of controls.

2.8 DWP's new investment in counter-fraud controls has yet to have a significant impact on the overall level of overpayments in 2022-23. I discuss this further in Part Four of my report.

DWP's measurement of overpayments in Universal Credit

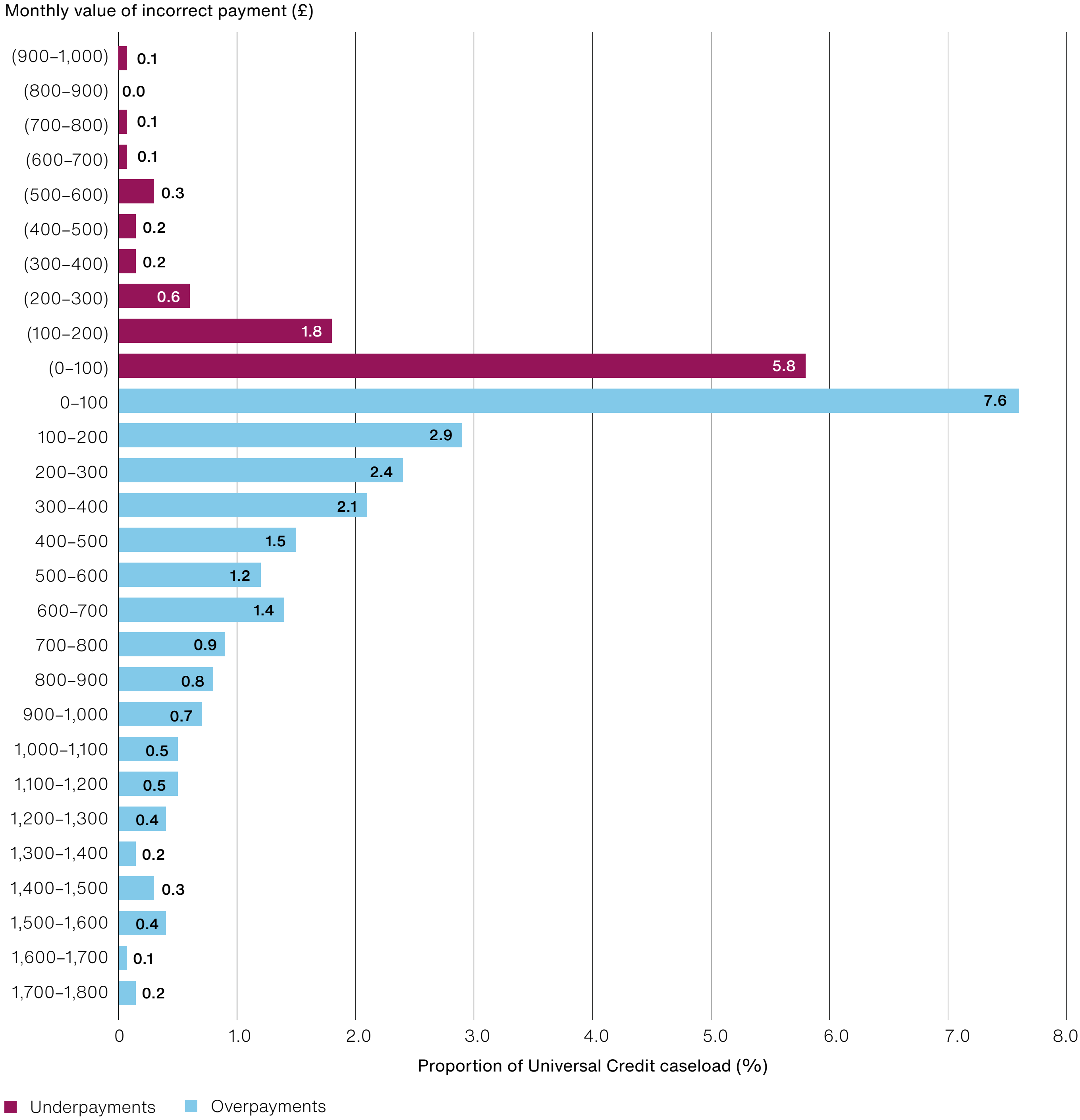
2.9 Although the amount DWP estimates it overpaid decreased in 2022-23 compared with 2021-22, the proportion of claims that it overpaid remained constant and the value of the average overpayment fell. On average 33% of Universal Credit claims were incorrect in 2022-23, which is equivalent to around 1.6 million claims. Most of these claims (24% of all Universal Credit claims) were overpaid. DWP made at least one overpayment due to claimant fraud in 18% of cases and there was at least one error by the claimant in their favour in 6%. DWP made at least one overpayment error in 3% of Universal Credit cases. Around half of incorrect Universal Credit claims were overpaid or underpaid by £200 or less per month, but some were as high as £1,000 underpaid or £1,800 overpaid per month (**Figure 3**).

2.10 In 2022-23, around 60% of overpaid claims were where the claimant had a valid claim and was due some Universal Credit, but the amount paid was incorrect (**Figure 4** on page 22). Around 40% of overpaid claims (10% of all Universal Credit claims) were wholly incorrect, meaning the claimant had no entitlement to any Universal Credit payment. Almost all of these were where DWP assessed an individual had made a fraudulent claim.

Figure 3

Distribution of incorrect Universal Credit claims in 2022-23, by value

On average 33% of Universal Credit claims were incorrect in 2022-23, half of which were worth £200 or less



Note

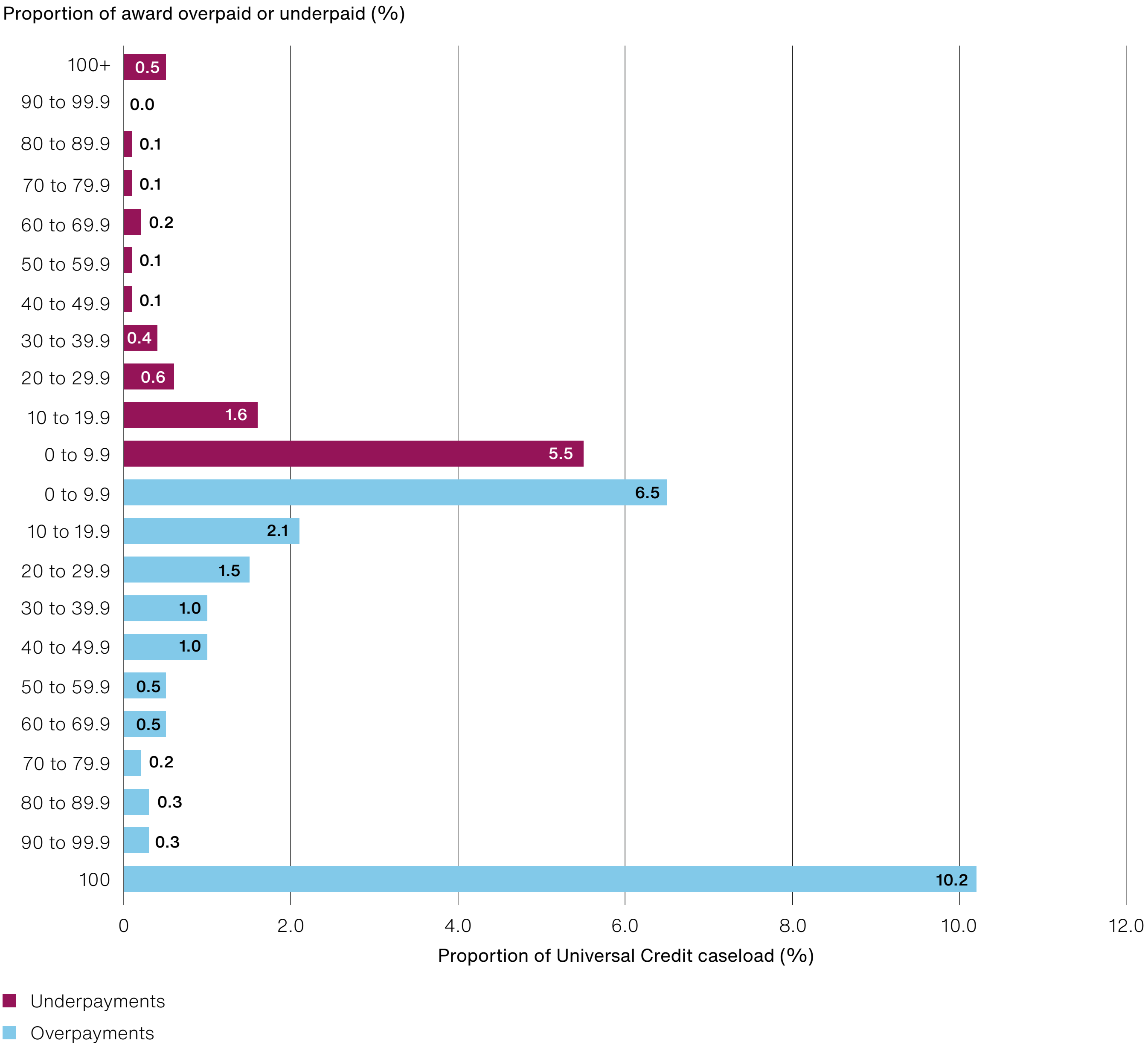
1 The proportions presented are based on samples taken by the Department for Work & Pensions on a monthly basis and represent an average in the caseload over 2022-23.

Source: National Audit Office analysis of the data underpinning the Department for Work & Pensions' benefit system National Statistics

Figure 4

Distribution of incorrect Universal Credit claims in 2022-23, by proportion of award overpaid or underpaid

Around 10% of all Universal Credit claims were wholly incorrect, almost all of which the Department for Work & Pensions assumed to be fraudulent



Note

1 The proportions presented are based on samples taken by Department for Work & Pensions on a monthly basis and represent an average in the caseload over 2022-23.

Source: National Audit Office analysis of the data underpinning the Department for Work & Pensions' benefit system National Statistics

2.11 DWP classifies incorrect payments as either fraud or error based on its assessment of the probability that there was an intent to deceive. This is inevitably a judgement because it is very difficult to demonstrate what a claimant intended when they made an incorrect claim, and the classification process is not designed to produce a criminal standard of proof. In our audit testing of DWP's annual fraud and error sampling exercise we encountered a range of decisions that demonstrate this challenge, where the circumstances are similar, and others that are clearer cut:

- A claimant did not declare receiving a divorce settlement of around £90,000. After paying off credit card bills and a year of rent in advance they were left with capital of £40,000, which exceeds the threshold of £16,000 over which no Universal Credit is payable. DWP classified this as Claimant Fraud.
- A claimant did not declare income from an occupational pension which they were in receipt of at the start of a claim, resulting in an overpayment of less than £50. DWP classified this as Claimant Fraud, because the claimant would have confirmed that they had no such income as part of making the claim.
- A claimant who had been ill did not declare an uprating of their occupational pension, resulting in an overpayment of less than £10. DWP classified this as Claimant Error because the claimant had been unable to notify DWP of the change.

2.12 DWP also detects more serious frauds. For example, as part of its 2022-23 sampling exercise DWP contacted a claimant who subsequently failed to verify their identity. The sample was picked up by DWP's dedicated fraud team who identified eight separate claims made under the claimant's name. DWP closed the claim, leading to an £8,500 overpayment. DWP classified this as Claimant Fraud in its annual sampling exercise.

2.13 Around £833 million of overpaid Universal Credit (15% of the total) related to cases where there was a suspicion of fraud but the reason could not be determined and the claimant did not engage in the measurement process or failed to provide the requested evidence and instead chose to give up their benefit claim. DWP cannot know the real reason for non-engagement and assumes these cases are fraudulent, as an individual with a genuine claim would need the money and be motivated to engage with the process. It is possible that fraudsters may be more likely to allow their case to be closed than engage with the measurement process; however, there may be other reasons a claimant does not engage, such as vulnerability.

Overpayments in Cost of Living Payments

2.14 My qualified opinion on the regularity of DWP's 2022-23 financial statements due to material levels of fraud and error in benefit expenditure includes Cost of Living Payments. These payments were made directly to millions of households to help with the rise in the cost of living. The payments were made to recipients of qualifying means-tested benefits, pensioners, and people with disabilities. The value of support varied between these eligibility groups. Overall, DWP paid out £8.4 billion in Cost of Living Payments in 2022-23 and estimates that 4.9% (£410 million) of this was overpaid. DWP estimates that 3.7% (£310 million) of these overpayments related to fraud.

2.15 Before launching Cost of Living Payments, DWP conducted an Initial Fraud Impact Assessment (IFIA). An IFIA is a high-level assessment of fraud risk completed early in the lifecycle of a proposed major project. It is designed to indicate the potential for fraud in order to inform decision-making by helping to map out counter-fraud requirements and identify where changes may be needed in project design. The IFIA rated the risk of a targeted fraud attack to be low because eligible claimants were automatically identified by DWP and paid directly without having to apply. However, there remained a risk that erroneous or fraudulent claims already in the benefit system could affect the scheme. DWP estimated the level of this fraud and error would be around 4.0%, which is broadly similar to the level of 4.9% it has since measured.

Part Three

Underpayments

3.1 The estimated amount of benefits underpaid by the Department for Work & Pensions (DWP) increased to 1.4% (£3.3 billion) in 2022-23, the highest level on record. This compares with 1.2% (£2.6 billion) in 2021-22. The increase in underpayments in 2022-23 was mostly due to Claimant Error in Personal Independence Payment (PIP). DWP also reports a number of historical underpayment issues in State Pension going back several decades. In this part of my report, I highlight key areas and trends of underpayment, including:

- underpayments of PIP;
- progress in correcting historical underpayments of State Pension relating to official error in cases of married pensioners, widows, and people aged over 80;
- underpayments relating to missing periods of Home Responsibilities Protection;
- underpayments due to missing National Insurance credits relating to Universal Credit; and
- DWP's capability to detect and prevent underpayments building up.

Underpayment of Personal Independence Payment

3.2 The largest increase in DWP's estimated underpayments was in PIP. DWP's estimate of the level of PIP it underpaid increased from 3.8% (£570 million) in 2021-22 to 5.1% (£900 million) in 2022-23. This makes PIP the benefit with the highest rate of underpayments of any benefit DWP administers. PIP helps with extra costs caused by long-term disability or ill-health for people of working age. This year DWP remeasured fraud and error in PIP for the first time since 2019-20 and the start of the COVID-19 pandemic. In the intervening years it had rolled forward the 2019-20 rates. DWP therefore thinks that the increase may have occurred more gradually over the years since 2019-20 than implied by the jump from £570 million in 2021-22 to £900 million in 2022-23 shown in the published statistics.

3.3 DWP told us it is working to determine why the estimated level of PIP underpayment has increased so much since 2019-20. The most common reason given for underpayment in the published statistics is that a claimant's medical condition worsened, but they did not inform DWP. The increase in PIP underpayments has come at the same time as a significant backlog of assessments and peak demand on telephony services during the COVID-19 pandemic, making it difficult for claimants to both contact DWP and book a medical reassessment. DWP has since reduced these backlogs from their peak. However, DWP says that the issues may reflect the wider take-up of PIP and poorer health in the population since the pandemic. The Office for Budget Responsibility has noted a post-pandemic increase in the PIP caseload largely driven by a rise in the number of people claiming for mental health and musculoskeletal conditions.

Underpayments of State Pension

3.4 DWP's estimate of the level of State Pension it underpaid has been trending upward for six years (**Figure 5**). This is in part due to changes in 2021-22 to its methodology for estimating the level of underpayments, when it began contacting claimants to confirm the details of their claim, which it had not done since 2005-06.

3.5 Until 2020-21, DWP had rolled forward its 2005-06 estimate for the rate of Claimant Error. DWP estimates that State Pension underpayments due to Claimant Error increased nine-fold from £10 million (0.0%) in 2021-22 to £90 million (0.1%) in 2022-23. This is based on the very small number of the cases that it sampled where a claimant was required to report a change in their circumstances to DWP but had failed to do so. These cases all involved women who did not inform DWP when they were divorced or their partner died and therefore did not receive increases in their State Pension. These are distinct from the cases of Official Error outlined below.

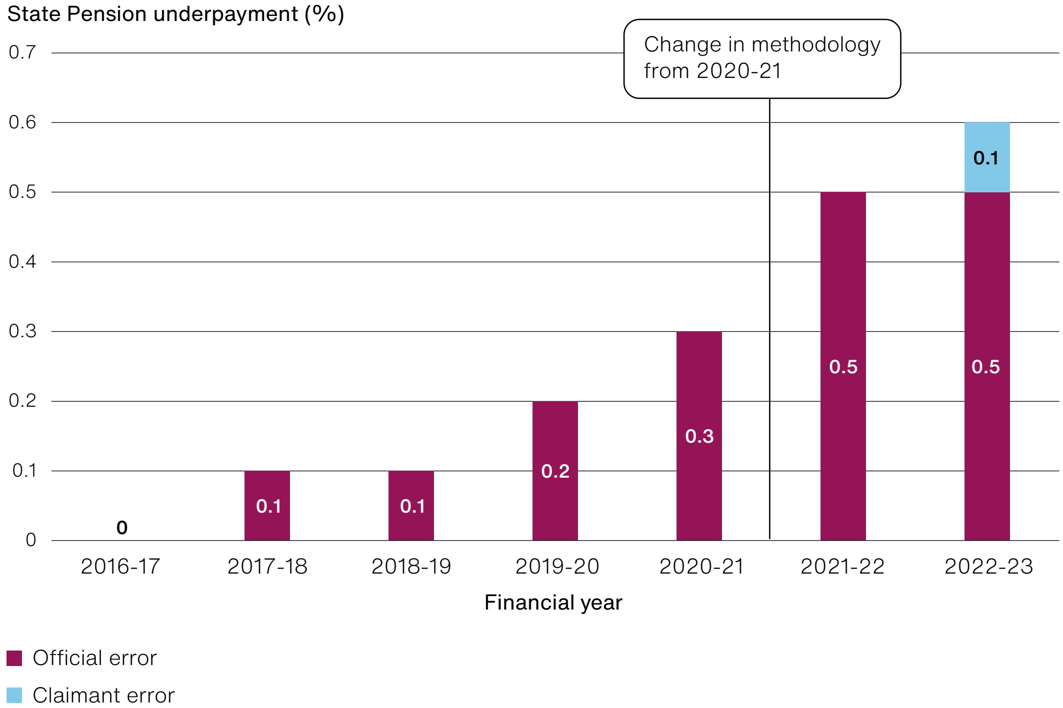
Progress in correcting historical underpayments of State Pension relating to Official Error in cases of married pensioners, widows, and people aged over 80

3.6 DWP became aware of potential issues with underpayment of State Pension in spring 2020 after a series of cases involving Official Error were highlighted in the media. Some married pensioners, widows and people who have reached age 80 are being underpaid State Pension because their current payment does not include an additional entitlement. In January 2021 DWP launched a Legal Entitlements and Administrative Practices (LEAP) exercise to determine the scale of the issue and correct State Pension cases at risk of underpayment. I reported on this in more detail in September 2021.[2]

2 Comptroller and Auditor General, *Investigation into the underpayment of State Pension,* Session 2021-22, HC 665, National Audit Office, September 2021.

Figure 5
Underpayment of State Pension expenditure, 2016-17 to 2022-23

The underpayment rate for State Pension has been trending upward for six years



Notes

1 2021-22 was the first time the Department for Work & Pensions (DWP) had remeasured Claimant Error and Fraud for State Pension since 2005-06. In the intervening years DWP rolled forward the underpayment rates estimated in 2005-06.

2 Customer Fraud in State Pension is negligible.

Source: National Audit Office analysis of the Department for Work & Pensions' *Fraud and error in the benefit system: financial year 2022 to 2023 estimates*

3.7 DWP's current best estimate is that 165,000 pensioners have been underpaid a total of £1.17 billion due to these errors. DWP estimates the total amount underpaid could range from £957 million to £1.35 billion, if the underpayment for all three categories were at the high or low end of its estimate (see Table 3 on page 373 of the financial report). It has recognised a provision of £835 million, reflecting the outstanding amounts it still expects to repay (see Note 16 to the Accounts). The current estimate is within the range of uncertainty DWP initially set out and is based on its experience of reviewing cases including a new sample of widowed pensioner cases. DWP initially estimated that around 132,000 pensioners had been underpaid some £1.0 billion but updated this in its 2021-22 Accounts, having undertaken new scans of its data, to 237,000 pensioners having been underpaid £1.46 billion.

3.8 DWP is now halfway through the timeline it set for the exercise and has reviewed 263,000 (39%) out of 678,000 cases identified for review. This has resulted in DWP repaying £324 million to 51,000 pensioners so far (**Figure 6**). DWP does not expect to repay all affected claims because it does not expect to be able to trace the next-of-kin of all the affected pensioners who have died since they were underpaid.

3.9 DWP initially planned to repay all pensioners affected by the end of 2023, but revised this deadline to late 2024. DWP still expects to repay all pensioners in the married pensioners and over-80 groups by the end of 2023, but the widowed pensioner group will take longer. The number of cases it is reviewing each month is increasing (see pages 123 and 124 of the performance report), but to achieve this target date DWP will need to almost double the productivity of its review activity by summer 2024. DWP's plan to do this is dependent on several assumptions around recruitment, training, and the automation of case review.

Figure 6

Progress in correcting historical underpayments of State Pension, 31 March 2023

The Department for Work & Pensions (DWP) has repaid around 28% of estimated amounts outstanding through its exercise to correct State Pension underpayments

Pensioner group	Estimate of total amounts underpaid	Amounts repaid	Estimate of the number of pensioners underpaid	Pensioners repaid
	(£mn)	(£mn)		
Married	468	161	65,000	25,000
Widowed	634	122	64,000	11,000
Over-80	67	41	36,000	15,000
Total[2]	**1,169**	**324 (28%)**	**165,000**	**51,000 (31%)**

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 In addition to the £324 million, a further £4 million was repaid before the beginning of the Legal Entitlements and Administrative Practice exercise.

3 The underpayments are the cumulative result of human error going back at least 30 years and primarily affect three groups. These are set out in more detail in Note 16 to the Accounts (pages 369 to 373).

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

Underpayments relating to missing periods of Home Responsibilities Protection

3.10 DWP has identified another category of historical State Pension underpayments caused by gaps in the National Insurance records of women who previously claimed Child Benefit. Between 1978 and 2010, people claiming Child Benefit for a child under 16 or Income Support for caring responsibilities should have automatically received Home Responsibilities Protection (HRP), which reduced the number of Qualifying Years needed for a full basic State Pension. DWP has identified missing periods of HRP on the National Insurance records of some women who had received Child Benefit. This led to underpayments of State Pension, which is calculated based on those National Insurance records. Both Child Benefit and National Insurance records are administered by HM Revenue & Customs (HMRC).

3.11 In 2010-11, DWP and HMRC undertook an exercise to correct these records and reported that it had repaid £84 million in arrears to people who had been underpaid. However, DWP started to find new errors relating to HRP when it began contacting claimants as part of its measurement of State Pension underpayments in 2021-22 (paragraph 3.4). DWP recognised this error as a contingent liability in 2021-22, but has now been able to estimate the level of underpayment.

3.12 All the HRP underpayments identified related to Child Benefit claims that started before 2000. HMRC and DWP do not plan to further investigate whether any Income Support claimants also have missing periods of HRP.

3.13 DWP now estimates that it has underpaid around £1.3 billion of State Pension to 210,000 people, mostly women, due to missing HRP records. Of these 210,000 people, 150,000 remain alive and 60,000 have died since they were underpaid. On pages 373 to 379 of the Financial Report, DWP has set out a provision of £1.0 billion, reflecting its best estimate of the total amount it will have to repay. This assumes a 90% take-up rate among those affected who are still alive, and that DWP and HMRC can trace the next of kin for 75% of those who are deceased (and the next of kin take the necessary steps to receive any arrears due). This estimate is very uncertain, and DWP has given a range of between 120,000 and 330,000 people affected and of between £310 million and £1.53 billion for the amount that it will have to repay.

3.14 Of the cases identified by DWP so far, the average (median) amount of State Pension that DWP had underpaid was around £2,000, but the highest underpayment it found was £33,300.

3.15 Under the 1979 Legal Entitlements and Administrative Practices (LEAP) guidance, DWP and HMRC will need to perform a corrective exercise to repay those affected. In previous exercises, DWP has identified the people who might be affected and reviewed each case in turn. However, DWP is unable to identify who might have missing HRP because the National Insurance records are maintained by HMRC. DWP is therefore reliant on HMRC both to identify people who might have missing HRP and to correct the National Insurance records.

3.16 HMRC says it is very unlikely that it will ever be able to identify all people affected by this issue. HMRC's data retention policy was to retain Child Benefit records for five years after the claim ended (this was extended to seven years in June 2022). As a result, records are no longer held for the period prior to 2000, meaning it is not possible to easily identify those affected. HMRC does not have complete information on how National Insurance records are linked within families and must use proxies such as shared addresses and names within the National Insurance records to identify people who might have had caring responsibilities.

3.17 In 2022, HMRC undertook analytical work to estimate the number of people who may have had missing HRP, by trying to match details from the records of mothers and children so that DWP could estimate the value of underpayments. However, this was not intended to be a complete list of people potentially affected and thus did not provide a basis for DWP to undertake a LEAP exercise to correct the payments.

3.18 HMRC is working towards compiling a more refined list of people with potentially missing HRP in autumn 2023, which will allow it to begin contacting customers. Customers identified by this scan of National Insurance records will be invited to make an application to HMRC for any potentially missing periods of HRP. Once HMRC has corrected the customer's National Insurance record then DWP will be able to correct any underpayment of State Pension. DWP and HMRC have not yet finalised their delivery plan for this exercise but DWP has assumed for its provision that it will take until 2027-28 for it to repay all the affected people.

3.19 DWP and HMRC are also planning a joint communications campaign to encourage people who cannot be identified and who may have been underpaid to come forward. However, similar campaigns run by DWP have received a high rate of responses from people who turned out to have not been underpaid.

Underpayments due to missing National Insurance credits relating to Universal Credit

3.20 Claimants of certain benefits, including Universal Credit, are entitled to have credits added to their National Insurance record that contribute toward their entitlement to receive State Pension. In 2017-18, DWP agreed with HMRC to suspend the automated transfer of Universal Credit data as this was causing issues in the National Insurance database. This automated reporting recommenced in February 2023 once the system issues were fixed. Individuals who claimed Universal Credit during the intervening period have credits missing from their National Insurance record.

3.21 Around 10 million people made a claim to Universal Credit during the affected six-year period. Unless these people have a National Insurance credit for some other reason, then their National Insurance record will be incorrect. If these people use the government's Check Your State Pension tool, they will see an inaccurate valuation of their State Pension. There is therefore a risk that some people may have unnecessarily purchased voluntary Class 3 National Insurance contributions to top-up their State Pension. DWP has not informed potentially affected claimants about these issues. If anyone is found to have purchased voluntary contributions that it turned out they did not need, DWP would ask HMRC to make arrangements to make a refund.

3.22 Of the 10 million people who claimed Universal Credit during the affected period, DWP estimates around 137,000 people have now reached State Pension age. DWP does not yet know how many have been underpaid and says it cannot yet estimate the level of underpayment. Some of these 137,000 people may already have enough National Insurance contributions from employment or other sources to be paid their maximum State Pension entitlement and are not at risk of being underpaid due to missing credits. Others may not have met their maximum State Pension entitlement without the missing National Insurance credits and are at risk of being underpaid State Pension as a result. DWP has been manually updating National Insurance records as people approach State Pension age, but cannot begin to check for any State Pension underpayments until HMRC provides updated National Insurance records. HMRC began correcting records in February 2023 and expects this work to be completed by the end of March 2024.

3.23 It is possible that similar errors could have occurred in relation to other benefits which entitle a claimant to National Insurance credits. DWP does not routinely check that benefit claimants are receiving the National Insurance credits they are entitled to. It has not, however, identified any underpayments of State Pension due to missing National Insurance credits from other sources through its annual fraud and error measurement.

DWP's capability to detect and prevent underpayments building up

3.24 These historical underpayments represent a small percentage of DWP's annual expenditure but have built up over time to represent large underpayments for individuals. DWP's quality control mechanisms rely on what the sample tested picks up. For many years these mechanisms did not pick up these errors. I have previously recommended that DWP develop an 'early warning system' using root cause analysis of individual detected errors to help pick up systemic issues without needing a critical mass of detected errors to direct its efforts. DWP is still developing this process. Until DWP develops such an early warning system then large-scale underpayments and corrective exercises will continue to be a common feature of the benefit system.

3.25 In my 2020-21 Report on Accounts, I also recommended that DWP put in place a measurement for detected underpayments across all benefits. DWP has accepted this recommendation but has only committed to regularly monitoring the types and levels of underpayments in Universal Credit and not across its other benefits. The purpose of my recommendation was for DWP to have management information on the level of underpayments that it is correcting (to complement its estimates of the amount it underpays). However, it would also aid the creation of an early warning system.

Part Four

DWP's plan to tackle fraud and error and to report transparently on its progress

4.1 In this part of my report I set out:

- The Department for Work & Pensions' (DWP's) plan to tackle fraud and error;
- DWP's experimental performance framework;
- DWP's forecast of overpayments;
- DWP's savings from its counter fraud and error activities; and
- DWP's new target for savings in 2023-24.

DWP's plan to tackle fraud and error

4.2 DWP has set out its plan to tackle fraud and error on pages 96 to 117 of the Accounts and in its strategy *Fighting Fraud in the Welfare System* published in May 2022. Its plan consists of three key pillars[3]:

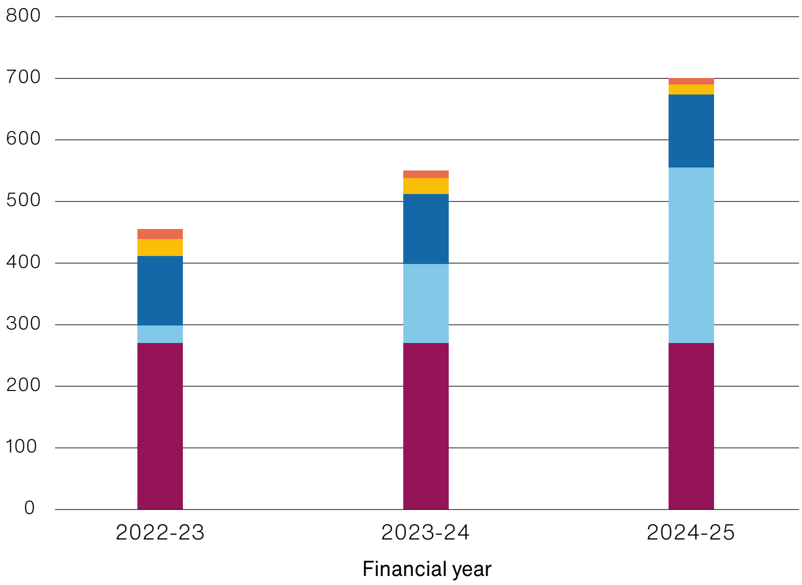
- **Investment in counter-fraud activities.** DWP has secured £895 million of additional funding since 2021 to invest in enhancing its counter-fraud capabilities (**Figure 7** overleaf). Around half of this funding has been allocated to Targeted Case Reviews of Universal Credit claims (see paragraphs 5.2 to 5.7). The investment will also fund an expansion of counter-fraud staff and the development of data analytics to identify fraud, including machine learning and artificial intelligence (paragraphs 5.8 to 5.14).
- **Creating new legal powers.** DWP plans to introduce a cross-government Fraud and Error Bill as soon as Parliamentary time allows.
- **Working closely with the public and private sectors.** This includes the new Public Sector Fraud Authority, HM Revenue & Customs (HMRC), and external experts to improve the use of data to prevent fraud.

3 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/

Figure 7

Spending allocation for counter-fraud activities, 2022-23 to 2024-25

The Department for Work & Pensions (DWP) is investing an extra £895 million on top of baseline funding over three years. Around half of this (£443 million) will fund an in-depth targeted review of millions of Universal Credit claims



	2022-23	2023-24	2024-25
Baseline	270	270	270
Targeted Case Review	28	129	286
Extra resource for counter-fraud and compliance	113	113	118
Other transformation projects	28	26	16
Verify Earnings and Pensions Service	16	12	10
Total	**455**	**550**	**700**

Notes

1 Total funding for counter-fraud activities is £1.7 billion over three years, comprising £811 million of baseline and £895 million of additional funding from the Spring Budget 2021 (£103 million), Spring Statement 2022 (£510 million) and Autumn Statement 2022 (£282 million).

2 Baseline funding of £881 million is allocated to Counter Fraud and Compliance staffing and associated overheads, including supporting digital and policy teams. Some of the funding for Counter Fraud and Compliance will go towards activities not directly related to countering fraud such as debt collection.

3 Targeted Case Review has been allocated £443 million across the three years, around half of the additional funding for counter-fraud activity. This is explored in paragraphs 5.2 to 5.7.

4 'Other transformation projects' is a collection of activities designed to enhance DWP's counter-fraud performance in various ways, including developing advanced data analytics. These include work by the Integrated Risk and Intelligence Service to risk-score benefit claims and a new case management system and IT platform.

5 The Verify Earnings and Pensions Service enables DWP and local authorities to use Real-Time Information data to verify benefit claimant earnings and pension information.

Source: National Audit Office analysis of the Department for Work & Pensions' financial information

DWP's experimental performance framework

4.3 DWP has reported its estimates of the level of fraud and error since 2005-06 and its reporting of this is among the most transparent we have seen across government in the UK and internationally. It has, however, previously struggled to demonstrate that it is sufficiently prioritising reducing fraud and error, how its efforts to counter fraud and error are performing and whether its controls over fraud and error are cost-effective. Both the Committee of Public Accounts (PAC) and the National Audit Office (NAO) have recommended to DWP that it set itself targets for reducing fraud and error and to establish a framework for reporting on the impact and cost-effectiveness of its counter-fraud activities and controls.

4.4 In this year's Annual Report and Accounts, DWP has set out an experimental performance framework for demonstrating the cost-effectiveness of its counter-fraud activities (performance report pages 111 to 116). This comprises estimates of the savings achieved from its counter-fraud activities and standard controls by reducing benefit fraud and error.

4.5 DWP has chosen not to provide targets for the level of fraud and error in each benefit line over the next three years as we recommended. Instead, it is providing a target for the level of savings it hopes to achieve from its specific counter-fraud and error activities next year. It does not give as much granular detail as three-year targets of fraud and error by benefit line. For Universal Credit, DWP has in effect considered (but not published) this detail in setting a forecast for the fiscal and economic outlooks published in the 2023 Spring Budget. We therefore set out this forecast below.

4.6 DWP's savings methodology, target and forecasts taken together should aid accountability over how it is tackling fraud and error and support DWP to focus its efforts by enabling users of the accounts to:

- understand the extent of DWP's ambition in reducing fraud and error and how it is using its resources to tackle fraud and error;
- assess whether DWP's counter-fraud and error initiatives are working as intended and how that translates into a reduction of fraud and error;
- whether DWP is on course to meet its ambition; and
- understand the extent to which the estimated level of fraud and error is influenced by DWP's activities rather than external or unknown causes.

4.7 The effectiveness of this experimental performance framework will depend to a large extent on DWP's ability to provide consistent data year-on-year, with variations that it can explain as a result of its activities or external factors rather than the specifics of the methodology.

DWP's forecast level of overpayments in benefits

4.8 DWP produces forecasts of overpayments in the benefit system as part of its forecasts for benefit expenditure. These are reviewed and agreed by the Office for Budget Responsibility (OBR), which uses them as part of its fiscal forecasting and to evaluate policy costings. DWP's latest forecast was incorporated into the OBR's Fiscal and Economic forecasts published alongside the 2023 Spring Budget, in March 2023. DWP does not produce forecasts of underpayments.

4.9 DWP's spring 2023 forecast implied that by 2027-28 the benefit overpayment rate would be 9.3% for Universal Credit and 3.0% for all benefits. If achieved, this level for Universal Credit would be lower than the 2019-20 estimate of 9.4% (**Figure 8**) and significantly higher than DWP has previously forecast. However, the level for all benefits would still be higher than the 2019-20 level (2.4%) because Universal Credit is expected to become a larger part of overall benefit expenditure. In 2021 DWP told the PAC that it still expected Universal Credit overpayments to fall to 6.5% in 2027-28 and reiterated this ambition in the November 2022 refresh of its Universal Credit full business case.

4.10 DWP's forecasts are subject to revision and based on several assumptions including that:

- there will be changes in the composition of the Universal Credit caseload;
- the underlying propensity to commit benefit fraud will increase by 5% per year. Without this assumption DWP's forecast would be in line to reduce fraud and error in Universal Credit to 6.8%;
- it will continue to refine the Universal Credit system in ways that will reduce fraud and error; and
- the investment in DWP's counter-fraud activities will have the planned impact.

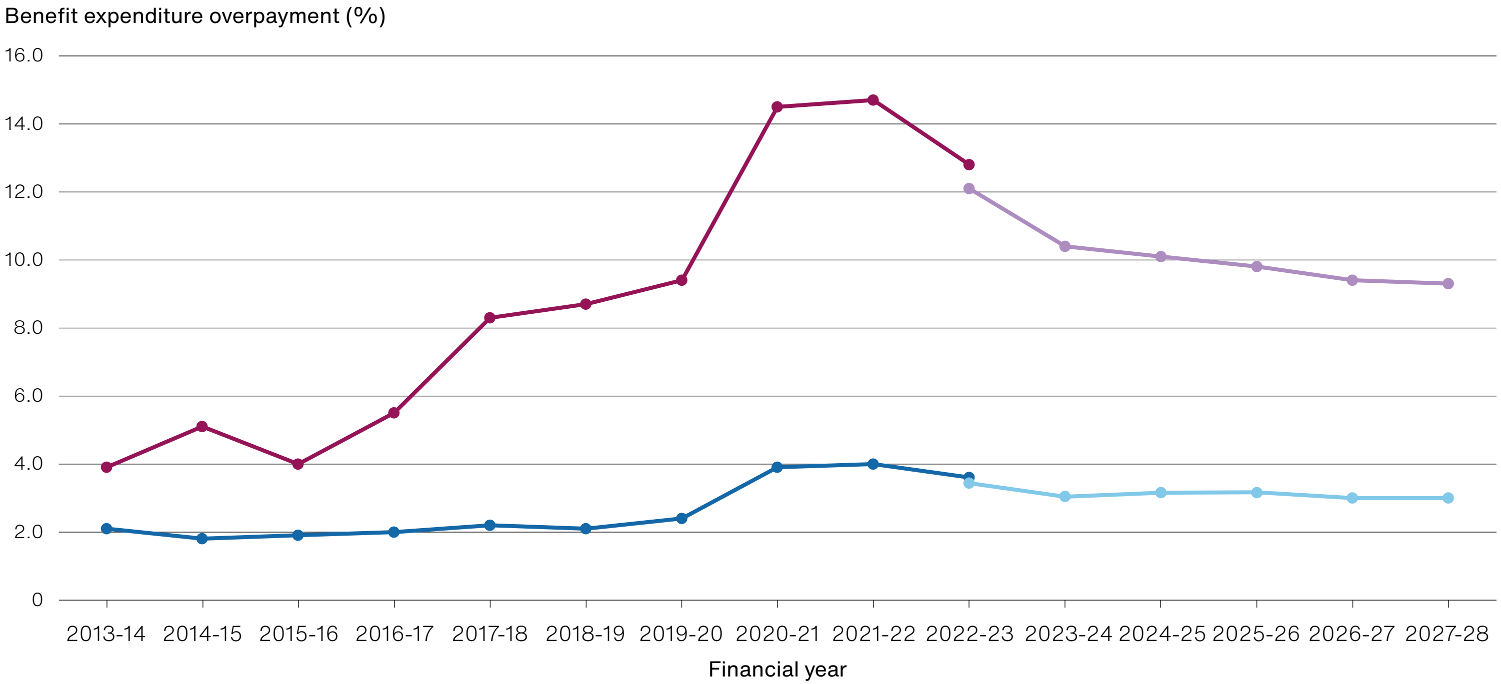
4.11 The actual 2022-23 fraud and error levels as measured and published by DWP in May 2023 were higher than its forecast. DWP forecast that it would overpay expenditure by 12.1% for Universal Credit and 3.4% for all benefits, but its actual estimated rates were 12.8% and 3.6%, respectively (Figure 8). These differences fall within the range of confidence surrounding DWP's estimates and are therefore not statistically significant. DWP told us that the disparity is mostly due to inherent variability in the sample size, particularly when examining small cohorts of cases.

4.12 Because of this disparity, DWP says its forecast is still too volatile to be relied upon as a baseline for setting a target level of fraud and error reduction.

Figure 8

The Department for Work & Pensions' (DWP's) forecast of the level of fraud and error in benefit expenditure

Universal Credit overpayments were 12.8% in 2022-23, rather than the 12.1% expected. DWP does not consider its forecast reliable enough to be the baseline for setting a target



	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Universal Credit (Actual)	3.9	5.1	4.0	5.5	8.3	8.7	9.4	14.5	14.7	12.8					
Universal Credit (Forecast)										12.1	10.4	10.1	9.8	9.4	9.3
All benefits (Actual)	2.1	1.8	1.9	2.0	2.2	2.1	2.4	3.9	4.0	3.6					
All benefits (Forecast)										3.4	3.0	3.1	3.1	3.0	3.0

Note

1 DWP's forecast assumes a shift in the Universal Credit caseload away from the cohort of claimants that started during the COVID-19 pandemic and has a higher rate of fraud and error. It also assumes that its counter-fraud activities will be effective and the underlying propensity to commit Universal Credit fraud will increase by 5% per year.

Source: National Audit Office analysis of the Department for Work & Pensions' published fraud and error statistics and internal forecasts

The savings DWP achieves from its counter-fraud activities

4.13 DWP sets out the savings it estimates that it has achieved from its counter-fraud activities on page 113 of its performance report. DWP's new estimate comprises savings from dedicated counter-fraud activity, such as investigations, as well as those attributable to administrative frontline processes not specifically designed to tackle fraud (**Figure 9**).[4]

Figure 9

The Department for Work and Pensions' (DWP's) estimate of monetary fraud and error savings across the organisation

DWP's estimate is experimental and requires refinement to be a reliable performance metric

Category	Source of savings	2021-22 (£bn)	2022-23 (£bn)	Reliability
Dedicated counter-fraud resource (This is the benchmark for DWP's annually managed expenditure (AME) savings target)	Counter Fraud and Compliance Directorate (CFCD):[1]	1.59	1.06	**High**
	Investigations	0.02	0.02	
	Compliance	0.19	0.17	
	Interventions	0.12	0.22	
	Enhanced Review Team	1.25	0.65	
	Economic and Serious Organised Crime	0.01	0.01	
	Verify Earnings and Pensions Service	0.07	0.07	**High**
	Targeted Case Reviews	–	0.01	**High**
	Sub-total[2]	**1.66**	**1.14**	
	Of which:			
	Expected recoveries from debt referrals	0.21	0.45	**Very high**
	Prevented future overpayments	1.44	0.69	**High**
Other downward adjustments to current or past entitlement	Where an overpayment was identified	2.37	1.81	**High**
	In advance of an overpayment occurring	6.05	6.06	**Medium**
	Sub-total	**8.41**	**7.87**	
	Of which:			
	Expected recoveries from debt referrals	0.51	0.16	**Very high**
	Prevented future overpayments[3]	7.90	7.71	**Medium**
Specific upfront checks on claimant entitlement[4]	Functional health assessments	6.29	8.49	**Medium**
	Universal Credit ID verification	0.04	0.15	**Medium**
	Sub-total	**6.33**	**8.65**	
Total expected savings of benefit expenditure		**16.40**	**17.66**	

4 The NAO's audit of these estimates involved a review of the methodology, choice of data inputs, logic and assumptions underpinning them, but we did not undertake a full review under ISA 540 of the integrity of the data and calculations.

Figure 9 *continued*

Department for Work and Pensions' (DWP's) estimate of monetary fraud and error savings across the organisation

Very High - A specific overpayment has been detected, using only tested assumptions to measure its value.

High – Estimate based on known management information that can link activity to savings, using only tested assumptions.

Medium – Estimate based primarily on assumptions or analytical procedure to infer the implied saving.

Low – DWP has chosen to exclude some areas where it believes it has generated savings but it cannot produce a reliable estimate or connect savings to a specific activity.

Notes

1 This table aligns with Chart J shown on page 113 of the Performance Report. See page 100 for descriptions of Counter Fraud and Compliance activities by area.
2 Some totals do not sum due to rounding.
3 The majority of savings from 'Other downward adjustments to current or past entitlement' relate to where DWP has processed a change in claimant circumstances (for example, higher income) that resulted in a reduced benefit payment in the next period.
4 These are checks done on conditions of entitlement at the start of a claim.

Source: National Audit Office analysis of the Department for Work & Pensions' management information and calculations

Savings from its counter-fraud activities

4.14 DWP estimates that in 2022-23 it saved £1.14 billion from its activity specifically designed to detect fraud and error (Figure 9). These include activities undertaken by staff working in dedicated counter-fraud and compliance teams, such as fraud investigations, serious and organised crime work, and debt recovery. It also includes other interventions backed by additional funding for reducing fraud and error such as Targeted Case Reviews and machine learning to help identify incorrect claims. It represents the additional funding requirement that DWP would have needed if it had not undertaken these activities and is made up of both its expected recoveries from overpayments referred to its debt management team, and the prevented payments that it would have made in-year.

4.15 This estimate is based on management information that DWP uses to manage its counter-fraud activities and it can link each element to specific cases and activity. It uses tested assumptions to convert this information into an estimate of savings. We thus found that DWP had a high degree of confidence in this estimate, although it is sensitive to the assumptions used and DWP should continue to refine it.

4.16 The majority of 2022-23 savings (£650 million) came from the Enhanced Review Team (ERT), which provides a rapid response service for detailed checking of high-risk Universal Credit claims before they go into payment. These estimates also suggest that preventative actions have a much higher level of return than investigating fraud and error after it has occurred. DWP only saved £30 million a year from its investigations and work on serious and organised crime. However, these can form a vital part of a deterrent and provide intelligence on how to prevent future fraud and error.

4.17 DWP has not set out the full costs of these activities, but the Counter Fraud and Compliance function saved £1.06 billion of the £1.14 billion, from spending of £283 million in 2022-23 which implies a return on investment of around 3.7:1.

DWP's savings in detecting and preventing fraud and error from its general activities

4.18 DWP also estimates it saved an additional £16.52 billion through routine front-line processes (Figure 9). This includes where front-line staff refer an overpayment to debt management, upfront functional health assessments to check whether claimants are eligible for disability benefits and the updating of benefit records when a claimant reports a change in their circumstances that would affect the amount they are paid.

4.19 This estimate represents the amount that DWP would have spent in benefits had it not done any of its normal verification of claims and processing of changes in claimant circumstances. It is too broad to be useful for assessing DWP's counter-fraud and error performance in any given year. However, this estimate could be more useful when comparing across years to show whether it is improving its routine controls to reduce fraud and error. This will require DWP to refine the methodology, which is less robust than for the savings from its dedicated counter-fraud activities. Much of it is based on analytical procedures and DWP cannot trace it to specific cases or actions it has undertaken. It is also more dependent on assumptions that are untested than the counter-fraud-specific savings. DWP thus has a medium level of confidence in these estimates.

4.20 DWP also prevents fraud and error through other activities such as the deterrent effect of its investigations and its human behavioural team's efforts to refine its process to promote compliance. It decided not to report on these as it could not provide estimates that it had at least a medium level of confidence in.

DWP's target for savings in 2023-24

4.21 DWP sets out its target to save £1.3 billion of benefit expenditure through its counter-fraud activities in 2023-24 on pages 100 and 113 of its performance report. This is similar in principle to how HMRC uses an expected compliance yield to measure the effectiveness of its tax compliance and enforcement activities. The target only applies to dedicated counter-fraud activities, which includes the Counter-Fraud, Compliance and Debt function, Targeted Case Reviews, and Verify Earnings and Pensions Service.

4.22 DWP's saving target of £1.3 billion is based on expected savings that are consistent with the assumptions in fraud and error forecasts that DWP has agreed with the OBR. This £1.3 billion is less than the savings that DWP estimates it achieved in 2021-22 (£1.66 billion) which included savings from preventing a one-off large-scale attack by organised criminals.

4.23 DWP will need to increase its savings target each year if it is to reduce Universal Credit overpayments to 9.3% by 2027-28 and if its other assumptions used in its forecast prove accurate. DWP agreed with HM Treasury that it would achieve £9.4 billion in savings from its new investment in counter-fraud activities (**Figure 10**). This is predicated on substantial improvements in the savings it achieves from its data analytics and Targeted Case Reviews.

Figure 10

Monetary savings the Department for Work and Pensions' (DWP) expects to generate through counter-fraud activities backed by additional funding, 2022-23 to 2027-28

DWP expects its extra investment to generate around £9.4 billion of savings over six years, most of which will come from Targeted Case Reviews

Counter-fraud activity	2022-23	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total
	£mn (Actual)	£mn	£mn	£mn	£mn	£mn	£mn	£mn
Targeted Case Reviews	14	9	144	594	1,326	1,992	2,346	**6,412**
Extra resource for Counter-Fraud and Compliance	No data	242	410	504	407	390	226	**2,178**
Data analytics package	No data	91	131	142	152	166	0	**683**
Verify Earnings and Pensions Service	70	40	34	29	25	21	0	**148**
Total	**No data**	**382**	**719**	**1,269**	**1,910**	**2,569**	**2,572**	**9,421**

Notes

1 The table only shows savings that have been scored by the Office for Budget Responsibility (OBR) at fiscal events. The OBR most recently rescored the savings associated with DWP's counter-fraud investment activities in its Spring 2023 Economic and Fiscal Outlook.

2 Targeted Case Reviews is a project to perform in-depth reviews of millions of Universal Credit claims to drive out incorrectness from the caseload and develop insights to improve DWP's ability to reduce fraud and error (see paragraphs 5.2–5.7).

3 Additional resource for the Counter-Fraud and Compliance Directorate (CFCD), which specialises in dealing with fraud and error across all benefits. This includes all levels of fraud including organised crime, cyber and ID attacks on the system, and debt teams taking corrective action.

4 Data analytics comprises a collection of activities designed to enhance DWP's counter-fraud performance in various ways. These include work by the Integrated Risk and Intelligence Service to risk-score benefit claims and a new case management system and IT platform. These savings are contained within the CFCD line of DWP's table of estimated savings on page 113 of the Annual Report. DWP says it is not yet able to split these out.

5 The Verify Earnings and Pensions Service enables DWP and local authorities to use Real-Time Information data to verify benefit claimant earnings and pension information.

Source: National Audit Office analysis of the Department for Work & Pensions' policy costings

Part Five

Specific actions to tackle fraud and error

5.1 In this part I set out two of the actions that the Department for Work & Pensions (DWP) hopes will help it to reduce fraud and error:

- Targeted Case Reviews of Universal Credit claims; and
- Data analytics and machine learning.

Targeted Case Reviews of Universal Credit claims

5.2 DWP is investing £443 million in Targeted Case Reviews where its agents look at a sample of claims in payment and engage with the claimant to verify each part of the claim. DWP expects Targeted Case Reviews to:

- help reduce the level of overpaid claims that were made at the height of the COVID-19 pandemic and which are still in payment. In 2021-22 the overpayment rate for Universal Credit claims started before the pandemic was 10.9%, but for claims started during the COVID-19 peak in claims (March to June 2020) this was 26.6%;
- help manage the level of changes of claimant circumstances that its routine controls are not detecting and responding to; and
- provide additional intelligence on where to improve its preventative controls through root cause analysis of the fraud and error detected.

5.3 DWP has designed Targeted Case Reviews based on its annual sampling exercise to measure benefit fraud and error. However, it intends that Targeted Case Reviews will be a much larger exercise and most cases will be targeted for review based on the risk of being incorrect instead of at random to provide a statistical estimate. DWP selects a claimant for review and requires them to provide evidence to confirm their identity and aspects of their claim, such as housing or capital (**Figure 11**). This is followed by an in-depth telephone interview with a DWP agent who assesses the claim for incorrectness (either an overpayment or an underpayment) by looking for inconsistencies in the evidence provided and interview responses.

Figure 11

The Targeted Case Review process in April 2023

The design of Targeted Case Review builds on the sample review of cases that the Department for Work & Pensions performs for its annual fraud and error measurement, but at a much larger scale

Stage 1: Preview

Claimant is selected for review

Claimant must have been on Universal Credit for six months to be eligible.

Agent previews claim

Check claimant is in scope. Check for complex needs.
Consider if home visits or translation services may be needed.

Stage 2: Review

Claimant informed they are under review

Via a message in the claimant's online Universal Credit journal.

Agent requests evidence (14-day deadline, or 30 days for post)

To confirm claimant circumstances and entitlement to claim.

Evidence shared

Online or by post.

Evidence not uploaded

Another **14-day deadline**. Claimant warned their claim **may be suspended**.

Detailed evidence review and interview preparation

To build up a picture of the claimant's circumstances and help inform possible interview questions.

Agent interviews claimant

To establish the facts and ensure benefit payment is correct.
Usually around 90 minutes by phone.

Stage 3: Outcome

No indication of incorrectness

Review is closed and claimant informed.

Indications of incorrectness

If the case warrants it may be referred to counter-fraud function.

Claim retrospectively corrected

Underpayment arrears paid in full.
Overpayments referred to Debt Management for recovery.

At any stage of the review process if the claimant presents with barriers or needs help managing their claim, the case can be handed to specialist teams for additional support.

Source: National Audit Office observation of Targeted Case Reviews process and review of the Department for Work & Pensions' management information

5.4 Targeted Case Reviews are not fraud investigations and will not find sustained attempts to deceive. They should identify many forms of incorrectness but will not detect all fraud present in the Universal Credit caseload. If a claimant fails to provide evidence or respond within an allotted period of time, their Universal Credit claim may be suspended and eventually closed. After reviewing the evidence and interview responses an agent has discretion to close the review, require a claimant to update their claim, or refer the case to the counter-fraud function for follow-up.

5.5 Targeted Case Reviews will inevitably place some level of burden on claimants who are required to provide information and engage with the process. DWP emphasised to us that its early priorities are ensuring the quality of review and a good level of customer service, with less focus at this time on the productivity of its agents (how many claims a week they review). We visited one of the centres undertaking Targeted Case Reviews to confirm our understanding of the process. The agents that we spoke to reiterated that their aim when interviewing claimants was to establish the facts to ensure the claim is correct, rather than to interrogate. We saw examples of agents taking action to support vulnerable claimants, such as by terminating a review considered likely to cause undue stress. We also saw agents directing claimants toward additional support and entitlements that the claimant had not realised they were eligible for.

5.6 Targeted Case Reviews are working as DWP expected at a small scale but is still in an early phase of development. DWP expects to revise the design over time, which will include improving its targeting based on learning from earlier reviews. By the end of March 2023, DWP had recruited around 840 agents, led by some 117 higher and senior executive officers. DWP plans to have around 2,830 agents in place across 17 or more sites in Great Britain by the end of 2023. DWP told us its main immediate challenge is to scale up both its recruitment of new agents and their productivity in reviewing cases.

5.7 DWP has set the level of savings that Targeted Case Reviews achieves as the main success metric (**Figure 12**). Most of the expected savings, some £6.4 billion by 2027-28, are expected to occur in the final years of the project. By the end of March 2023, Targeted Case Reviews had delivered DWP £39 million of savings, of which £14 million related to 2022-23 expenditure.[5] The level of savings that Targeted Case Reviews achieve is dependent on the:

- **volume of completed reviews.** DWP will need to recruit enough agents and ensure they are adequately productive. Around 25,000 reviews had been completed at the end of March 2023. By the end of the project DWP expects to have undertaken around eight million reviews;

5 The £14 million has been adjusted to offset potentially lost labour market savings due to Targeted Case Reviews recruiting work coaches, as modelled by the Office for Budget Responsibility.

- **'hit rate' of reviewed cases found to be incorrect**. DWP has found around 30% of claims reviewed so far by Targeted Case Reviews to be incorrect, which is similar to the level of incorrectness found by its random sampling exercises. DWP's forecast savings for Targeted Case Reviews include the conservative assumption that the hit rate remains constant, but DWP intends to improve its use of analytics so that it can better target claims that are more likely to be incorrect; and

- **average saving per incorrect claim**. This will depend on the nature of incorrectness, for example a claimant may have understated details such as capital or self-employed income by different amounts. At the end of March 2023, the average saving generated per 'hit' was around £5,500.

Figure 12

Monetary savings the Department for Work & Pensions (DWP) expects to generate through Targeted Case Review, 2022-23 to 2027-28

DWP will need to significantly increase recruitment and productivity to achieve intended savings

Output	2022-23	2022-23	2027-28	Total
	(Actual)	(Expected)	(Expected)	(Expected)
Number of staff[1]	946	430	5,930	–
Average productivity (cases reviewed per agent per day)	0.58	No data[2]	2.0	–
Cases reviewed	25,000	30,000	2.54 million	8.0 million
Average hit rate[3]	32%	34%	34%	–
Total AME savings[4]	**£14 million**	**£9.2 million**	**£2.3 billion**	**£6.4 billion**

Notes

1 Full-time equivalents listed here are the number of reviewing agents in post and include executive officers and higher executive officers. The number of staff for 2022-23 (actual) is the position at year end, others are the expected average over the financial year.

2 New reviewing officers are assumed to be underproductive whilst in training then to clear 0.5 cases per day, ramping up by 0.16 cases every six months.

3 The 'average hit' rate is the proportion of reviewed claims that are found to contain incorrectness.

4 Total annually managed expenditure (AME) savings are realised in the financial year that the benefit would have been paid, and hence a large portion of the outcomes of the 2022-23 activity will not be reported until future financial years.

Source: National Audit Office analysis of the Department for Work & Pensions' management information

DWP's use of machine learning to tackle benefit fraud

5.8 DWP is investing some £70 million between 2022-23 and 2024-25 in advanced analytics to tackle fraud and error, which it expects will help it to generate savings of around £1.6 billion by 2030-31. These analytics include a variety of sophisticated techniques. One of these is the use of machine learning to identify patterns in claims that could suggest fraud or error, so that these claims can be reviewed either by relevant DWP teams, such as the Enhanced Review Team, before the claim enters payment, or the Targeted Case Review agents if it is already in payment.

5.9 Since 2021-22 DWP has been using a machine learning model to flag potentially fraudulent claims for Universal Credit advances to Universal Credit agents. DWP created the Universal Credit advances model by training an algorithm using historical claimant data and fraud referrals, which enables the model to make predictions about which new benefit claims are likely to contain fraud and error (**Figure 13**). In 2022-23 DWP developed and piloted four similar models designed to prevent fraud in the key areas of risk in Universal Credit: people living together, self-employment, capital, and housing.

5.10 When using machine learning to prioritise reviews there is an inherent risk that the algorithms are biased towards selecting claims for review from certain vulnerable people or groups with protected characteristics. This may be due to unforeseen bias in the input data or the design of the model itself.

5.11 DWP faces a challenge in balancing transparency over how it uses machine learning to provide public confidence in the benefit system with protecting its capabilities by not tipping off fraudsters about how it tackles fraud. However, it should be able to provide assurance that it is not unfairly treating any group of customers. In response to the Committee of Public Accounts (PAC) 2022 report on fraud and error in the benefits system, DWP committed to report annually to Parliament on its assessment of the impact of data analytics on protected groups and vulnerable claimants.

5.12 DWP has established tight governance and control over its use of machine learning, with safeguards designed to assess the impact that using the model has on its different customers. However, DWP says its ability to test for unfair impacts across protected characteristics is currently limited. This is in part because claimants do not always answer the optional questions about their demographics when making a benefit claim. DWP also segregates personal data on its analytical platforms for security reasons and has yet to incorporate all the relevant data onto its fraud and error analytics platform. DWP told us it plans to do this soon.

Figure 13

How the Department for Work & Pensions (DWP) uses machine learning to reduce benefit fraud

Machine learning is used to identify claims that potentially contain fraud and error to help prioritise manual review and the final decision on benefit entitlement is made by a human caseworker

Personal data from historical benefit claims

Data may contain some protected characteristics as these can have a significant impact on the value of benefit claims.

Updated personal data and review outcomes are fed back into the algorithm to improve its effectiveness.

This means DWP needs to continually update its assessment of the fairness of the algorithm's outputs.

Outcome of review

Claims considered correct by the caseworker are paid.

Claims considered potentially fraudulent are referred for investigation.

Data processed by machine learning algorithm

The algorithm is trained to search for patterns of behaviour that tend to correlate with a benefit claim containing fraud or error.

This enables the resulting model to predict the likelihood of fraud or error in new claims.

Prior to launch, the model outputs are tested for impacts on protected characteristics that are significant or disproportionate.

Model scores new claims for the likelihood of potential fraud and error

Newly received claims are run through the model.

The model assigns each claim a score indicating the probability that it does not contain fraud and error or potentially contains fraud and error.

DWP has committed to continuously monitor machine learning outputs for unintended bias and unfairness.

Claims that score above a certain threshold are referred for caseworker review

Payment of the benefit is paused until a caseworker has acknowledged and responded to the referral.

Caseworkers are expected not to assume that claims flagged by the model are illegitimate.

A selection of claims are flagged at random as a check against overreliance on the model.

Caseworkers are not told the specific reasons for a case being flagged in order to avoid human bias.

Caseworker performs manual review of claim

The caseworker undertakes a manual inspection of the claim history and evidence in order to decide whether it may contain fraud or error.

No automated decision-making

The final decision about the legitimacy of a claim is always made by a human caseworker.

Process

Safeguards

Note

1 The machine learning algorithm builds a model based on historical fraud and error data in order to make predictions, without being explicitly programmed by a human.

Source: National Audit Office review of the Department for Work & Pensions' governance documents

5.13 DWP performed pre-launch 'fairness' analysis of its data analytics products currently in use to test for disproportionate impacts on people with the protected characteristics of age, gender and pregnancy. The results were largely inconclusive, but it found some evidence of bias toward older claimants in some of the models.[6] DWP concluded that bias towards selecting people over the age of 25 is to be expected because fraudsters are more likely to say they are aged over 25 to claim a higher value benefit payment. DWP told us it reperforms this fairness analysis on a weekly basis and has identified no further statistically significant disparities so far.

5.14 DWP told us it is working to develop its capability to perform a more comprehensive fairness analysis across a wider range of protected characteristics and would respond to the PAC with a reporting plan by November 2023. So far DWP's focus has been on monitoring for bias in the selection of cases to review. DWP could also helpfully provide assurance that whichever cases it chooses to review there are no adverse impacts on customer service – such as delays to first benefit payment.

6 The claimant dataset used to train the model was relatively small compared with the population of all claimants and did not provide adequate statistical granularity to assess disparities for characteristics where there were few relevant cases in the population.

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