

Public Accounts Committee

Oral evidence: Fraud and error stocktake, HC 394

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Members present: Meg Hillier (Chair), Mr Richard Bacon, Kevin Foster, Nigel Mills, David Mowat, Teresa Pearce, Stephen Phillips, John Pugh, Karin Smyth, Mrs Anne-Marie Trevelyan

Sir Amyas Morse, Comptroller and Auditor General, Max Tse, Director, Work and Pensions Value for Money, National Audit Office, John Thorpe, Executive Leader, Economic Affairs, NAO, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Witnesses: Robert Devereux, Permanent Secretary, Department for Work and Pensions, Jon Fundrey, Senior Responsible Officer, Fraud, Error and Debt Programme, DWP, Lin Homer, Chief Executive and Permanent Secretary, HM Revenue and Customs, and Nick Lodge, Director General, Benefits and Credits, HMRC, gave evidence.

Chair: Welcome, everyone, to the Public Accounts Committee. We are discussing today the NAO Report on fraud and error with HMRC and the Department for Work and Pensions. I am pleased to welcome Robert Devereux, permanent secretary at DWP, and Jon Fundrey, the senior responsible officer for the fraud, error and debt programme at that Department. I also welcome back, within a week, Lin Homer, the chief executive and permanent secretary of HM Revenue and Customs, along with Nick Lodge, who is her director general for benefits and credits and the SRO for fraud and error at HMRC.

We have a lot to get through this afternoon and we hope to finish before 6 pm, so if witnesses can be brief in their answers, we will endeavour to be brief in our questions. I am going to hand straight over to Nigel Mills.

Q1 Nigel Mills: We will start with you, Ms Homer, because you probably have the better story to tell of the two Departments—your fraud and error rate is down a reasonable amount in the past few years. Can you talk us through how you have achieved that? It is not entirely clear exactly from the NAO Report.

Lin Homer: It is probably fair to say that we had slightly more to go at than DWP, which I am sure has something to do with the difference in progress. As I mentioned in the

sitting last week, there was quite a good chapter on fraud and error in the annual report, which we did not deal with last week because this hearing was coming up. In some ways, that chapter gives quite a good summary of what we have been doing and identifies that we had a fairly clear strategy about targeting particularly high-risk areas, focusing our interventions on those areas, and being prepared to use design of both policy and process to improve what we were doing, while also trying to evaluate what we were doing in order to work out what was working and what was not.

Nick could give you more detail on many of those points, but I would say that we are very clear that there are still some fairly big challenges ahead for us, one of which is the significant time lapse between when we do something and when we know whether it has worked. That can mean that it takes us quite a long time to finesse things. The other thing is that we are still struggling—as are, I know, Robert and DWP—on undeclared partners. That remains a big risk for us, although we do think we have made some progress on that over the time period. So, we have been focusing on strategy, we have used targeted interventions and we have been prepared to do policy process and productivity, but we recognise that there is still some way to go.

The final thing is that we have not focused absolutely on a complete redesign of the policy because tax credit has only a limited life. That was our strategic response to the problems with tax credit, which is one of the most complex and difficult-to-operate processes that I have been involved with. The longer-term strategic answer is for it to be absorbed into universal credit.

Q2 Nigel Mills: You mentioned undisclosed partners. A decent chunk of the reduction was down to you restating your estimate on that. Are you confident that that restatement was valid and will not be reversed back again at some point?

Lin Homer: We are trying to understand it fully, but our initial look at it does focus on the fact that we have done quite a lot more work on undisclosed partners, so we do feel that we have been bearing down on that rather more. Again, if you want some more detail, perhaps this would be a good point for me to hand over to Nick. We have significantly increased the number of interventions generally, but that has included interventions in this area. We are still looking at that and trying to understand it. Our rate of progress largely trends downwards but occasionally turns upwards across all six areas of risk, but we are confident that there is an underlying downward trend. I suspect there is more for us to learn. Have I missed any salient points, Nick?

Nick Lodge: No, but perhaps I can just elaborate a bit. We have done a fair bit of work and will be taking the NAO through all of the detail in the coming weeks, just to make sure that we are very satisfied that the reduction in the figure from 7% to 5.3% is right, and we believe that it is. We understand some of the underlying reasons for that. There is a bit more analysis to really understand some of the detail. For example, we know that there were some appeals outstanding at the point that we first did the calculation. We know that there were some unfinished cases. We know that we had to take into account a bit more accurately than we did something called notional entitlement—I am very happy to expand on that if you would like me to. There are a variety of reasons, but we are satisfied that the 5.3% figure is robust.

Q3 Nigel Mills: So what is your target, going forward? You have got down to 4.4%, so you are ahead of the aim you set yourselves as a Department. Where do you want to get in this Parliament? There will be a lot of tax credits still around by the end of this Parliament, I suspect. It is still a big number.

Lin Homer: At the moment, all Departments are working towards the spending review in the autumn. We are doing a lot of work with our colleagues in Treasury, and obviously with Ministers, about what our spending review will look like. I think we will be better able to look at what projections we think we should be achieving thereafter, but in overall terms we are very determined to try to ensure that we continue to work with colleagues in DWP so that we are handing over tax credits in the best shape we can as it moves into universal credit. Although the final transition out of tax credits and into wholly UC is a few years away, it is ramping up. It is really important that that collaborative work between us at least maintains if not improves the progress we have made, so that we are vesting the legacy of tax credits in as good a shape as we can into DWP.

Q4 Nigel Mills: I am not totally sure why the spending review means that you cannot have a view on how low you think you can get fraud and error. It is down to 4.4%. Presumably zero is a long way too optimistic, but is 1% or 2% achievable?

Lin Homer: I think it's early days. We have had some significant policy changes, as well as resourcing changes, and in some ways what we might all anticipate is that the transitional period will give us some additional challenges. We are very determined to keep making progress, but it is just the wrong point in the cycle for me to be putting a wet finger in the air. It needs to be subject to that debate with Government later in the year.

Q5 Nigel Mills: So when do you think you will be able to set a target?

Lin Homer: I am hoping the spending review will be settled quickly and cleanly in the autumn, and I am sure I will have a revised remit letter from the Chancellor as a consequence of it.

Q6 Nigel Mills: It looks pretty clear from the evidence that having a target in place focused the Department's mind on making progress on this. I am not quite sure I understand why, given the work you have done so far, you don't think, "Great. We've got to 4.4%, but we can get to 3% in the next three years with these initiatives." It just seems a bit of a drift, doesn't it?

Lin Homer: As I say, one of the challenges for us is that our learning is all lagged 14 months. We have had some fairly complex policy changes to implement in the summer Budget. Some of the disregards have changed. Some of the thresholds have changed. We think it is wise for us to try to have a look at our entire agenda before we make projections about the future, but you have my assurance: we do intend to keep focusing on this. We are very clear, even with the progress we have made, that there is a significant amount of spend

covered by the fraud and error figures that could be spent on other things if it was reduced further.

Q7 Nigel Mills: Of course, your level of fraud and error is still higher than the working-age average of the DWP.

Lin Homer: As I said, we had a bit more to go at. It is getting closer, but there is clearly progress to go before we are at that level. Indeed, there are gains from universal credit itself that will help in relation to some of the in-built problems with tax credits.

Q8 Nigel Mills: I assume you would quite like not to have your accounts qualified for this issue if you could achieve it, but it does not sound like you have a target or a plan to achieve a target, so it does not strike me that you will be avoiding it any time soon. Is that qualification something that keeps you awake at night? Is it a priority to get rid of it?

Lin Homer: It is something we discuss regularly with the NAO. The accounts have been qualified every year since tax credits were in existence, initially in the trust account and now in the resource account. We have slightly asked that question of our colleagues in the NAO: given the complexity of the current system—which we are clearly not going to completely overhaul before universal credit—what level of improvement in fraud and error might it take to reach that halcyon point? We are on the verge of our Northern Ireland NIF accounts not being qualified, so we are very focused on that.

Q9 Chair: Sorry, could you just explain what you mean by Northern Ireland NIF accounts?

Lin Homer: Sorry: Northern Ireland national insurance fund. That is also qualified, or has been, because of the level of fraud and error—it was not last year and we are hoping that it will not be this year. It is slightly the reverse. Our colleagues in the NAO have given us a slight advance warning that if and when tax credits is not on the books, they will look more closely at the level of error in child benefit, which is £175 million and about 1.5%. The level of materiality goes quite low if £175 million at 1.5% is beginning to attract interest. I suspect that we could double our performance again and probably—Amyas would say, rightly—they would still qualify us.

Sir Amyas Morse: Who knows whether I'll say that? Forgive me for a second, but may I just check something? Do I understand that the level of further reduction might be one of the negotiating factors in the spending review?

Lin Homer: No, not specifically, but we will end up with a balanced agenda. Most of the fiscal events have a variety of issues for us. We make some decisions about which of our obligations we need to balance in which ways. We have tended to try to make that a connected set of objectives, not disaggregated, because it is the nature of our business that the parts of our business play into each other. It is not a specific, targeted intervention but the point at which we will adjust the business plan and effectively republish is when we put the whole thing together.

Q10 Nigel Mills: Mr Devereux, it is not quite such a rosy picture, is it? To me, you do not look to be anywhere greatly near meeting the aspiration you set five years ago of being down to 1.7%. What has gone wrong?

Robert Devereux: I guess I want to make two points at the start in answer to that question—two things that are slightly different from HMRC. The figures that have been quoted in this Report are perfectly taken from our own statistics and they are measuring the extent to which there is fraud and error in the system at any one moment. They are not seeking to estimate how much of that we then subsequently recover. In my mind's eye, I am thinking of two concepts: the gross loss, which is what is wrong today; and the net loss to the taxpayer, which is what happens when I have collected something back. That is point one.

The second thing that the NAO has drawn out in its Report is that, for my system, because I have multiple benefits, the headline number is as affected by the relative size of the spend on the different benefits as it is by the level of incorrectness. If I end up with a lot more money being spent on the state pension, which is really low fraud, my headline number goes down. I am slightly with the NAO in thinking that the right answer to your questions is, “Well, can I just get underneath these headlines a bit?” and I draw out three things.

First, we have a very stable and low rate of fraud and error on half of my spend, which is state pension. Secondly, we have had a rise in both the gross and the net loss on housing benefit, which is what I was before the Committee for 12 months ago, when we had the long conversation about what we were doing. I'll come back to that. On all the other benefits—and I mean all the other benefits—over the course of the Parliament, we have reduced the gross loss by 20% and the net loss by 30%. You cannot see that from the NAO Report because they have chosen not to put the net together and because they have not gone below the headline numbers, despite the recommendation saying that we should write strategies that way, with which I agree. I need to put that on the table.

So I have three different stories: a lot of money on which there is very little fraud; a substantial amount of money on which things have been getting worse, in part, as I explained last time, because housing benefit is a benefit paid in work and out of work, so when the composition changes and more people are in work on housing benefit, which has happened during the recession, I have a compositional problem; but then on income support, JSA, pension credits—you name it; all the rest of them—there have been very substantial reductions in the gross and the net amount. That is partly because we've done good things on fraud and error, and partly because we are doing much better things on overpayment and recovery.

Q11 Nigel Mills: So are you saying you would rather have a separate target and a separate assessment for each benefit? Is that something that you would like?

Robert Devereux: I think it's a good question for the Committee to think about, because if you hold me to account for one number, there are so many countervailing factors that I think we're always going to have a long conversation.

The advantage that we're moving towards—we might think about doing this, since we are setting, as Lin said, spending targets right out to the end of the Parliament—is that we're getting to a world that is going to be universal credit, pensioner benefits and the state pension. And at that point, these are three moderately coherent things, so you could ask us what we are doing on each. I don't think I want to get to the point where I will have a target for everything, because of winter fuel benefit and some tiny ones knocking around, but I think it would be perfectly sensible for the Government to say, "Well, here are some big pieces"—tens of billions of pounds worth of spending—and I could put them into sensible chunks and tell you a story about each one, which is essentially the principal recommendation of the report.

Q12 Chair: Can I just be clear that you don't think you can do that now with the current benefits? Because this figure that is highlighted masks a range of—

Robert Devereux: I could do that, yes. The target that was set in the last Parliament, just before I arrived, was an aggregate target—to try to get some sense of, "We're doing something about the whole of fraud and error"—but I think this compositional effect is real.

Q13 Chair: So you say you could do it. Could you do it quickly and easily, or are you saying you could theoretically do it?

Robert Devereux: So, what you've got in the Report is actually an estimate of the total amount of spending—this is figure 8—and it is a projection, as best we can, of both the compositional effect of the benefit system, including taking over the whole of tax credits and bringing them into universal credit, as well as projected levels in the improvement in the rate of incorrectness. What that red line shows you in figure 8, on a like-for-like, apple-and-apple basis, is a reduction from 4% in the current year to 2.5% at the end of the Parliament. That is a set of projections that we—

Q14 Chair: But this 1.7% figure masks—as you know, more than half of that is state pension, and then there is the other—

Robert Devereux: Almost exactly half.

Q15 Chair: So how easy would it be for you to sit here now and tell us what you're doing bit by bit? Is it just a question of the metrics being pulled out from the Department, or is it more complicated than that?

Robert Devereux: I did it in preparation for coming here. If I just stick with the net loss position, on the state pension, it is £86.5 billion. That is 0.2%—tiny. On housing benefit, it is £24 billion—3.5% net loss. And on everything else, it is £42 billion—2.5% net loss.

Q16 Mr Bacon: Could you just repeat the housing benefit one?

Robert Devereux: 3.5% net loss; 5.7% gross loss.

Q17 Nigel Mills: There is a risk to using net loss, in that you cause a lot of pain and misery to people who get given too much at the start and then you have to get it back from them. There is a risk that you won't get it back and there is misery for people who have got stuff they shouldn't have.

Robert Devereux: Sure. So, I'm absolutely of the view that we should try to get it right to start with, but quite often, if I'm honest, the debate about fraud and error characterises it all as loss to the taxpayer. For my system, an awful lot of what gets measured as fraud and error is actually—we know for a fact—claimants reporting one week, one month, two months late. So you can see from the analysis of our overpayment data that quite a lot of people tell us eventually what they're doing, but they don't tell us at the time. So when the statisticians go out and do samples, they find it to be incorrect, and that's a perfectly good statistical result. In practice, the population tends to correct it a bit behind the time.

I don't think I'm making an unfair proposition in terms of what is the loss to the taxpayer. However, would it be better to get it right? Absolutely. Let us take universal credit for one. The very fact that I'm only paying those people in employment when I know what their employer has declared their earnings to be, rather than paying first and asking questions afterwards, precisely goes after—

Q18 David Mowat: If I could very quickly interrupt, I am a little bit puzzled by your answer. The NAO Report quite clearly says that HMRC is on target with this and it says that DWP is not on target with this—that is in conclusion No. 13. Now, what you appear to be doing is defining slightly different indicators, one of them being the net one. Do you agree with the NAO conclusion that you are not on target, or is the issue that the NAO has just used different indicators to you?

Robert Devereux: No. The Government set a target, which included an aggregate percentage to be achieved by my Department, which we have not achieved. I have tried to explain, in answer to the question, why that would be the case when—

Q19 David Mowat: I understand; and when the Government set that target, was it a fair target? I mean, did you accept it yourself?

Robert Devereux: Yes.

Q20 David Mowat: So you were working to that target?

Robert Devereux: We were working to that target, yes, but two things have changed in the process. One is that some of the things we hoped to do have not paid off as well as we hoped. Secondly, the compositional change of benefits has changed as well, with both pluses and minuses. If you want to understand the position, I've got a strong story on most benefits, a getting-worse story on housing benefit and something which isn't really a

problem on the state pension. So in answer to the question, “How do I understand it?”, that is how I understand it.

Q21 Nigel Mills: The reason why I was asking about gross versus net is that surely you should be targeting is not making the mistake in the first place, because that has less risk for you and the least misery for other people.

Robert Devereux: I agree, but if Parliament wrote rules that say, “These are means-tested benefits. I don’t expect you to pay if somebody’s earnings change,” I would have two choices. Either I have a fairly elaborate system, which I have at the moment, to try to get people to tell me when their earnings change, or—good news: this is what we have now done, based on HMRC’s system—I know when their earnings have changed. The development in the technology in the tax-collecting system has enabled me to do something better. I could achieve a better result by just having higher disregards and forgetting a bit of change in the system. My data would be better, but—

Q22 Nigel Mills: If you could get your way on that. But you are still expecting, based on your Department’s forecasts, a very large level of fraud and error in 2020—I think £5.8 billion.

Robert Devereux: Yes. So in 2020 the position is, as it shows in figure 8, 2.5%—that is gross, so take another discount off, which I haven’t calculated, for the net position. At that point it is 2.5% of an even bigger number. When tax credits are in together, we will have a total departmental spend of the best part of £225 billion. A tiny percentage of £225 billion is a big number.

Q23 Nigel Mills: So you are estimating 5.8%. What do you think you could get that down to?

Robert Devereux: I didn’t say 5.8%; I said 2.5%.

Q24 Nigel Mills: Sorry, £5.8 billion. What do you think you could get that down to by 2020 with a full effort at tackling fraud and error? What do you think your target should be for this Parliament?

Robert Devereux: The table that the NAO produced for you is, as at autumn statement ’14, our best assessment of what was possible. You will see that figure 8 shows a like-for-like improvement—no doubt we will have to explain overpayments in the tax credit system to you shortly—from 4% to 2.5%. By the standards of the sorts of movements you have seen in both Departments in recent years, that is still quite a big change. It is possible that we have to do better than that. On some of the things Amyas is asking about, such as how this will work in the spending round, there are still choices for Ministers to make about the roll-out of things, what amount of expenditure they are prepared to put into the Department, and how much of the effort we think we can make the OBR will score as an

AME saving, even if I believe it to be true. That is part of the reason the spending round is a relevant concept, but this was a best estimate, as at autumn statement '14.

Q25 Chair: But did you make different progress on different benefits within the half that is more controllable?

Robert Devereux: Yes.

Q26 Chair: What have you learned from the best to influence where you are not doing so well?

Robert Devereux: We went through two things. To slightly paraphrase the housing benefit hearing, there is a conversation about the extent to which the claimant make-up has shifted to make it more difficult to manage, because more people are in work and have to declare their earnings—I get that problem. Over and above that—leaving that aside—there is an increase in the rate of fraud and error. The Committee challenged us and asked whether we were incentivising local authorities to do the right thing. On the back of that—we told you we were doing it anyway—we changed the incentive system. We put more money in local authorities' hands, and they are out doing things now that they weren't doing the last time we met.

It is a complicated part of the system. There are many actors trying to do something on a particular benefit. One of the things I deduced from that is that it would be quite a good idea to make sure that you have a rather more streamlined system. I am still running a system in which I have six principal working-age benefits knocking around. Come the day when there is only one, it becomes radically simpler for the claimant who currently has to remember what the rules are, whether they are different, who they have to tell and how it all works.

That gives me an excuse to talk about two things that have gone on in this Parliament. One is action on the actual legacy system, which is what this Report is reporting. Part 3 of the Report says that the other reason why the Department has been busy is that it has been landing all these reforms, designing them and making sure we have got some sensible rules in there. A lot of stuff that you as MPs passed in various welfare reform Acts has bit by bit constructed a system that is better designed and simpler than the system that we inherited. If the CAG insists on regularity being measured against your own rules, you have simplified the rules, which will make it easier for me to keep within them.

Q27 Nigel Mills: You are also not particularly keen to set a target for where we might be in 2020 in terms of how far you can get fraud and error down. Presumably when you are making a bid to the Treasury for investment, you can say, "If you were to give us £1 billion to spend on fraud and error, we could get the rate down."

Robert Devereux: I could, up to a point, with one slight subtlety that I hesitate to say, but that is none the less true. All the Treasury figures will have to be approved by the Office for Budget Responsibility. They are cautious people, and when I say, "If I do this, this and

this, I can confidently expect to save x, y and z,” there is a judgment call on their part about whether they actually buy all that. Consistently, they are cautious about what they score.

At the margin, our preparedness to say to the Chancellor, “Give me a pound and I will make it five for you,” depends a little bit on him being confident that the OBR will score the fund, so my case has to be good. As we go through the spending round, I do not know quite where some of those options will come, nor where Ministers will want to be in terms of the choices they make about the overall cost of the Department. We will seek to run it as rationally as possible.

Q28 Nigel Mills: Okay, that was a long way round of not answering, but I want to work out something. It is very hard for us to assess how well you do this without knowing exactly where you think you can get over the next few years. Have you any assessment—

Robert Devereux: Sorry, figure 8 shows you, as in the autumn statement, on a consistent basis—

Chair: Perhaps you could let Mr Mills finish and answer his question.

Nigel Mills: I am trying to work out what you think you could get this down to with the right investment. It is a huge amount of money. We are talking about more being lost in fraud and error than the tax credit savings we have to vote on tomorrow. That is why we would like to see a bit of ambition as to what you think you could get this down to if you made use of all the resources that you could have.

Robert Devereux: I have a view that it is quite difficult to land all the welfare reforms, but figure 7 tells you that the consequence of doing what we are planning is to take £2 billion of taxpayers’ money that would otherwise disappear and put it to good use. It is that £2 billion that is driving the red line down in figure 8. If you ask me, “Could you do more? Could you take fraud below 2.5%?”, the answer is, “Maybe, but I have to land all this first,” so forgive me if I am recognising that if I come back and say, “Don’t worry, it will all be fine tomorrow,” you would tell me, “Well, what about your track record?” So, 4% to 2.5% strikes me as not being a bad input for a Parliament when that was not what we achieved in the present one. I have some serious plans around each of these big reforms. Whether it is personal independence, state pension or the pension credit, each of these things is giving you a much better platform on which to operate.

Q29 Nigel Mills: To be fair, some of the years in that chart are in the previous Parliament. It is not like 4% to 2.5% is all in one Parliament, is it? I suppose we can overlook a technicality.

You set a lot of stall around the changes that universal credit and the new state pension will bring. Have you done a full assessment of the risks of what goes wrong if you mis-implement those? There is obviously a lot of complexity in universal credit. There must be a fair risk that people will end up on the wrong state pension when they start their new one. Have you got an assessment of the risk of something going wrong and how much that might cost?

Robert Devereux: Yes. To start with the universal credit figures, the figures that you are seeing in the Report are the ones that we had in the autumn, and they represent all the good things we hope to have, but also take account of the fact that under universal credit there will be much higher rates of take-up, so we have all the pluses and minuses. Then there is the stuff that we have not yet fully costed, such as exactly what is the most likely level at which some of the new risks consequent from universal credit will come out. We are trying, each time we have some data as the roll-out progresses, to establish the possible consequence of operating in a different fashion. We are trying to work that through. The figures that you have in front of you are the best ones—

Q30 Nigel Mills: So are you prepared to set targets for those two major new benefits on what you think you can get the fraud and error rate down to or what it will be?

Robert Devereux: I think that would be a very sensible thing to do. I cannot see the Government not wanting to target fraud and error. I personally do not think that an aggregate welfare target makes a lot of sense for the reasons I have explained. I think disaggregating it into the principal components would be sensible. It seems to me that over this Parliament you will end up with a state pension, universal credit legacy benefit and the personal independence payment.

Q31 Nigel Mills: We are sat here six months from the roll-out of the new state pension and we are rolling out universal credit. Don't you think you could have that assessment and target in place by now?

Robert Devereux: I have shown you what my best estimate currently is, and we have both explained that the spending round is important because it has a bearing on the resources both of us are given to attack the problem.

Q32 Nigel Mills: Okay, so what do you think the errors in the first year of the new state pension will be? How much do you think you might lose to miscalculation that has to be sorted out afterwards? Is that an assessment you have done?

Robert Devereux: I do not have that to hand, no.

Q33 Nigel Mills: But you could write to us, presumably.

Robert Devereux: I could do. With the state pension, as you can see from the sorts of numbers we are talking about—

Nigel Mills: It is huge.

Robert Devereux: It is a huge number, but a tiny—basically it is based on historical information about your circumstances, so it is not a surprise that it is relatively easy to get it straight. With the new state pension, if I know that you have made 35 years of national insurance contributions, ping; I can pay the—

Q34 Nigel Mills: I get that. I guess the question is whether you know—as long as the records are complete for people and you do not suddenly find out you have got stuff wrong.

Robert Devereux: Yes, and there is a problem, but just be careful. The state pension historical problem is one I have at the moment. When you and I both retire, we hope our records will be up to date, but that problem is going to occur with or without the new state pension. As soon as we get to 16 April, your contribution and mine will be a lot easier to find, so our retirement pension will be a problem that I already have, whether or not we reform it, and something for all years, after 16 April, that is easier to do, so I ought to be better off.

Q35 Nigel Mills: For the Committee, when we come back and look at the implementation of the new state pension—whenever we do it— I think it might be useful if we know that the Department thought that, on the roll-out, there would be an error rate of this much, and then either that it had turned out much lower and everyone was happy, or that something went horribly wrong—a whole load of calculations go wrong—and you started overpaying people for whatever reason. We need something to hold you to account on. You say that that kind of assessment and target exists.

Robert Devereux: I think we should not be making the rate of error on the state pension worse because of the new state pension. If you want to stick with the number we first thought of—in the current year, state pension was running at 0.2%—you ought not to accept it getting worse consequent on the introduction of reforms that, in my view, make it easier.

Sir Amyas Morse: May I ask something? I am genuinely asking for information. Is there enough risk in transitioning into the new system that you might have some one-off transitional problems? I am asking only because I think that might be what you are driving at. Rather than saying what the sustainable level of error might be—I fully understand that it should not be more than it was before—I am curious to know whether, when you are thinking about the transition, there are risks. It is not evident to me what they are, so I am genuinely interested to know.

Robert Devereux: My own view is that I do not think I do have a consistent problem, because the transition up to 31 March '16 is exactly the position I am trying to manage at the moment. After that, I have a simpler system. You are right that the process that we are endeavouring to do on 31 March '16 is to fossilise, as it were, all our entitlements to the old system, on to which I just have to add easy things. The most important thing is whether, by the time you actually get to retirement—as opposed to the day after 1 April '16—it is right then. My expectation is that the work we are doing—by the way, a lot of it is to do with tidying the national insurance record—should mean that as each of us gets to retirement, we should be confident that that sum has been done, but that sum is not more difficult post-reform than it is pre-reform.

Q36 David Mowat: Just a couple of observations about points you made earlier. Mr Devereux, I think you used the phrases “if the rules were simpler, this would be easier” and “elaborate”. Ms Homer, you used the words “complex policy changes”. I think that that is

right. I agree that if this were simpler, it would be easier to do it without so many errors. The question that arises, though, is whether, when policy is being developed, you are active in informing people as they make policy that some of this stuff is going to be hard for them to build into their systems and likely to result in high levels of error. Are Ministers aware of that? Is there a kind of feedback, or are you just passive recipients?

Lin Homer: No, and tax credits is a really good case study. We have been aware since early on in the system that it was very complex. A significant amount of the fraud and error we face is because of the fact that it is effectively retrospective, so about 70% of the fraud and error enters the system through, as Robert has indicated, late changes of circumstance. We have made a number of proposals that have led to policy change in the tax credit system, but it is one of the reasons why, if I'm honest, we are so supportive of the morphing into a universal credit system that has a lot of real-time self-rectifying built into it, because it is the biggest problem in our current system.

Q37 David Mowat: Right, but you have both said that one of the issues is complexity, which implies that you think there may be more complexity than we need, which I'm sure is true.

Lin Homer: Well, there definitely was in tax credits. It was retrospective complexity, but it was what Parliament wanted to achieve, because Parliament was trying to give families support at the beginning of the year and reconcile at the end, so it built that in—I think the NAO says it in the Report.

Q38 David Mowat: No, to be clear, I think that some complexity is an inevitable cost of policy, and it is right that it's done, as long as everyone understood that that was what was happening. What bothers me more—I don't know this for sure, but this is my guess—is that quite often things are done and people just do not realise the complexity that that is going to lead to in your organisations, and you do not tell them clearly enough that that is the case. It just happens, and then you turn up here saying, "We are losing £200 per family per year."

Robert Devereux: I understand why you say that, but that is not what it feels like to be in the Department. It is not only that this complexity ends up with a cost in fraud and error; it is a cost in actually running the Department. You have asked me to be 25% more efficient in the previous Parliament, which we were. That has been achieved by stripping out wasteful process.

To come back to the example of the new state pension, its effect is essentially to float a whole load of people off pension credit, a means-tested benefit that, being a means-tested benefit, is a difficult benefit—it currently has a rate of error pretty much the same as that for housing benefit. I have been thinking through with Ministers, "What happens if I do this?" The total amount of money that people are going to get at the bottom end is actually going to be very similar, but making it up by way of a new state pension and very little pension credit gets you—

Q39 David Mowat: To summarise, you are both happy that you get sufficient input into the policy development such that unnecessary complexity is not built in, so it is all working pretty well.

Lin Homer: I think we are both satisfied—well, I am satisfied—that we have an influence. As you said, there are times when the Government of the day will accept complexity in order to achieve their policy objectives.

Q40 Mr Bacon: I am extremely interested in Mr Mowat's line of questioning because I have been asking these questions of permanent secretaries—certainly Sir Richard Mottram and Rachel Lomax—for years. The question I always put was: if it is sufficiently complex that it causes problems in and of itself, and it might be, Ms Homer, that the Government of the day want to do x, or have decided that it is a price worth paying, the issue is whether you, as accounting officers, have decided that it is worth paying and, if you haven't, what you have done about it. I look in vain for requests for letters of direction about this saying, "Minister, what you're asking me to do will mean that it is complex to such a high degree that it will be impossible for me to fulfil my remit to Parliament to be as effective, economic and efficient as I want to be so, if you want me to do this, you'll have to direct me to do it." That conversation does not happen.

Coming back to Mr Mowat's question, you said, Ms Homer, that you are comfortable; are you, Mr Devereux, comfortable that you have enough input into the policy—not its remit, but its consequences in terms of effectiveness, efficiency and economy? Are you comfortable that you have enough input into the shaping of the policy so that, if it does create added complexity that makes it either more difficult or impossible for you to do your job as an accounting officer, you can and do push back?

Robert Devereux: That is a very fair question. In trying to reach that judgment, I guess I am also conscious of what the Government are trying to achieve overall. For example, if they are seeking to save money and change how some of the benefits operate, you can see a trade-off between the generosity of disregards, the size of taper and the incentives for people to play the system. Those are actually quite difficult to get a really good grip on ex ante, but you can see for sure that it will end up being a lower-cost system. I am not making that point for our current Government, but just generally. These rules are almost all the consequence of Parliament and the Government seeking to constrain the total amount of money that is being spent on welfare.

Q41 Stephen Phillips: The trouble with that, Mr Devereux, is that that's not your job, is it? You are the accounting officer within the Department. It is not your job to look across the whole of Government and to support the Government's agenda to reduce the size of public spending; your job is to deliver value for money within the Department of which you are the permanent secretary. If something is so complex that in fact it is going to be difficult to implement and is going to result in a greater level of fraud and error, that is something to which you ought to draw Ministers' attention and, if necessary, seek a letter of direction about, is it not?

Robert Devereux: It is, so what a good position I find myself in, to be here at a point at which we are simplifying benefits very substantially. In the period in which I have been here, we have been doing reforms that for the most part have all worked in the direction of improving fraud and error, which is why the totals are going down.

Q42 David Mowat: Just to leave this line, I think we all agree that what we are trying to achieve is sensible. All I would say is that there are two ways in which you can look at the process of specification. You can say it is done by Government and you are passive recipients of it, or you can say that in certain instances there is push-back and it is part of your role that you prevent what I would call unintended consequences. I spent quite a large part of my life developing computer systems, and you quite often see a lot of cost in areas that the people who designed the thing didn't know and didn't care about while they were doing it. They hadn't been told and that loop hadn't been closed. I think we should agree that that is your role.

Robert Devereux: I agree. I will give you an example. Somewhere in the bowels of the universal credit system there are rules we are having to construct about what we will do about self-employed earnings.

Q43 David Mowat: I don't want to spend too long on this. Is the position of both of you on this that over-complexity and over-elaboration are a bad thing, but that you are satisfied that, within your Departments, when you need to give that steer to Ministers it is given?

Lin Homer: Yes.

Robert Devereux: Yes.

Q44 David Mowat: Right. One final question on detection: in figure 5—this is a DWP thing—the line on prevention shows a massive underspend in terms of the programmes. You spent £27 million as opposed to £192 million, although for every pound you spent you got even more back than you expected. That raises the question of whether, if you'd spent another £27 million, you could have saved even more. I don't know. What changed between the original programme and what you ended up doing?

Robert Devereux: What changed is covered in footnote 1, slightly, and in paragraph 2.21. In the last Parliament, we embarked with the intention of constructing a system called IRIS, which is around risk assessment and testing the authentication of whether you are who you say you are when you are in the middle of an online session. The conclusion we reached in the middle of 2013, along with lots of other things on universal credit, is that, desirable though such a system was, its cost was far too great, so we did not spend the money that we thought we would spend on that system. Instead, we have started to build a system differently and at a much lower cost to achieve principally the same aims.

We are currently doing two things. One is that we have constructed and are now using in universal credit—and will continue to build along with universal credit—an analytical hub.

That basically takes the data, mashes it together and makes some sensible suggestions about whether Mr Devereux's claims are likely or not to be incorrect. Separately—and again, we have built this and it is operating for the universal credit service—is something that says, “What do I know about the current session we are in? is it likely that we are currently being spoofed?”

Q45 David Mowat: Okay, but you were hoping for savings that you didn't get, of £860 million. You didn't get those, so are you saying that they weren't there to be got or that it would have cost you even more than that to get them?

Robert Devereux: No. What I said was that the potential solution that would have caused us to spend that money, and, had it worked, would have generated those sort of savings, was, in our judgment, too expensive for the thing that we were getting.

Q46 David Mowat: But your original programme estimated that the cost of that solution was about £150 million at the very most, on these numbers—

Robert Devereux: It was £180 million.

Q47 David Mowat: No, £190 million, and then you spent £27 million. Okay, £180 million. Are you saying that was wrong?

Robert Devereux: Yes.

Q48 David Mowat: So it wouldn't have been £180 million in the end—it would have to have been a much bigger number?

Robert Devereux: No, sorry. When we constructed the programme, the prospective future spending was estimated. In that original column, that table is talking about what we thought was going to be the case. We hadn't got very far with it before we concluded that that was way too much to be spending for that capability and consequently did not spend it.

Q49 David Mowat: How could £180 million have been way too much to have been spending if it would have saved £860 million?

Robert Devereux: That is a good question.

Chair: We are hanging on your answer.

Robert Devereux: So—what is a good answer to that?

Mr Bacon: Good job this one is not televised—it probably is.

Robert Devereux: Yes, I am sure it is.

We could have spent that money and potentially made those savings, I agree. I think people were just thinking that this was going to lock us into a way of doing big IT things that was outsourced to a provider doing something and that was just the wrong thing to do. The sort of sums we are spending now are a fraction of this.

You are right: on a cost-benefit analysis, actually this might have been a good thing to do. It would have given us a capacity which I am fairly sure I would have been back in front of you, with you saying, “How can you possibly be spending all that money on it, because it could have done it a lot cheaper than that?” It is that that we are doing.

Q50 Chair: Mr Fundrey may have an answer.

Jon Fundrey: Can I help a little bit? The reduction in cost is primarily because we cancelled IRIS, which was unaffordable. The reduction in benefit—

Q51 Chair: How much had you spent on IRIS before you cancelled it? Remind us—it is somewhere in there.

Jon Fundrey: To be honest, I cannot recall.

Chair: Okay. Perhaps Max can help us there. Carry on.

Jon Fundrey: Whereas the reduction in savings is a result of loss of benefits to IRIS, but also a reduction in what we thought we were going to save from the ATLAS system, which is a system we built to share information with local authorities. So you are not comparing like with like. Roughly, IRIS was around £170 million and we have lost £370 million of benefits, so it is two to one.

Q52 David Mowat: When you say I am not comparing like to like, all I am doing is looking at the table that says that you spent a lot less than you said, but you got massively less benefits than you had hoped.

Jon Fundrey: Yes.

Q53 David Mowat: Okay, it is a combination of two systems, but, nevertheless, even on the numbers you just said then, £180 million to £380 million—I think you used to work for BOC, and had you gone to your CEO at BOC and said, “I can spend £180 million and give you £380 million benefit,” he would have promoted you, wouldn’t he? So why did you not do it here?

Chair: Who is going to answer that? Mr Devereux, you are the accounting officer.

Robert Devereux: I think the confidence the Government had in whether the system would do what it said and the obvious expense of the system caused us to pause—

Q54 David Mowat: So when you looked harder again at the numbers, you thought, “Actually, these benefit figures could be flaky.”

Robert Devereux: You are making a very good point. If all cash is equal, we could have spent this money and potentially made some of these savings with a system which, I am sure by now, Mr Bacon would be asking me questions about why on earth we were spending a number like that, because he has got a friend who could do it for a tenth of that.

Q55 Chair: I am going to bring in the Comptroller and Auditor General.

Sir Amyas Morse: Wouldn't it be fair to say that there was also much higher uncertainty about whether the system could have been delivered in a functional way? When you are talking about big system projects, it is not just a question of comparing costs; it is a question of understanding that, if you have had a lot of difficulty with a system, it may be that it will take a long time and you do not know when or whether it will deliver the functionality you were hoping for. So, in some ways, one of them is not only a lower cost, but a lower risk.

Q56 David Mowat: Yes, I understand that. What you said just then is that you are dealing with probabilities of outcome. I am, too, but maybe that complexity was too complex to put on to table 5. All I am saying is that—

Chair: We are in danger of going off on a tangent here.

Robert Devereux: The way accountability works is whatever we thought in 2010 is in this table. Some of those things we knew very well what was going on, and some of them were less well cooked, because you are talking about 2010 and the Government had only just arrived and decided that they wanted universal credit. So I do not think that it is unreasonable, as some of them were at different levels of maturity.

But your basic point is right. If we were absolutely confident about both sides of the thing, then you could have spent even a lot more money, but, as we worked it through, we were able to ask, “Is this really the best answer to the question?” and our conclusion was, “No, it isn't.”

David Mowat: Okay.

Q57 Chair: I am going to bring in Stephen Phillips in a minute, but can I pick up on lessons learnt? Lin Homer, admittedly you had a lot more to bite—or whatever phrase you used—but you had some success on tax credits. What lessons have you learnt for future reductions in fraud and error? We are hearing where assumptions were made that it would not be brought in, but you have got the real proof of the pudding.

Lin Homer: I was going to, at risk of distracting you from Robert, make the point that, at any one time, both of us have got a significant number of initiatives running. I think

Nick has got around 60 initiatives in personal tax credits. And at some points you also have to make a judgment about which you are going to give management time to as well.

I think what we have learnt—yes, figure 6 sets that out. You fairly criticise us to a degree for spending less attention on prevent than detect. Part of the answer for us is: absolutely, redesigning our system to get to the heart of prevent is not sensible when it is not going to last very long.

What we have also learnt, significantly—Nick could probably give you a better example than me—is that focusing on high-value fraud and error has got us a significant return. We have increased the number of interventions overall from around 100,000 to more than 2 million. We have altered the balance of risk for our claimants as to whether we will lift the stone and look; that is something that we have learnt.

Q58 Chair: Sorry—so you were looking at 100,000 cases. Is that individual claims?

Lin Homer: Yes.

Q59 Chair: And you are now looking at over 2 million, just to be really clear.

Lin Homer: Yes. So that's something that we have learnt. You have to change the balance of risk for the people in the system. We have also looked at high-risk claimants particularly deeply and got two and a half times as much return from them as we were doing previously. We have learnt to target. As a consequence of giving our staff more information about things so that as they are interacting in real time with a claimant they can work out the level of risk, we have massively increased the productivity of each of those interventions. I do not absolutely have the figure off the top of my head, but, for not very many more staff, there has been a massively bigger return.

Q60 Chair: It would be good to get that figure, if you could send it to us at some point or find it while we are here.

Lin Homer: I'm sure that I've got it somewhere. I may be able to send it while we go. Level of intervention, targeting on high risk and giving our staff much better prompt cues—"If you see this, ask about this. If that happens, ask about that."—are all much better supported by predictive analytics and data analytics than the first time that I appeared before you.

Q61 Chair: So in summary, you are saying that a mix of automated risk assessment and the human factor is important.

Lin Homer: Using the higher skill of our people because we are feeding them better information.

Robert Devereux: We have a similar story. In that same table that you have just been referring to, the intervention of staff is paying us £10 for every £1 that we spend. It is a huge return.

Chair: Right, so staff well used—

Q62 Stephen Phillips: I will come back to you, Ms Homer, because it is really this issue for both of you. As the preamble says to figures 5 and 6, you are both focused on detecting fraud and error, rather than on preventing it. Go back in the Report to the key findings on page 7, and to key finding 14. Again, the NAO says that you are “focused primarily on correcting claims rather than preventing errors.”

Mr Mills put a very interesting point to you, Mr Devereux—I appreciate that it does not concern you so much because we are the politicians and you are the people who implement the policy—that these are real people. They are our constituents. They get paid too much and then either DWP or HMRC comes back to them afterwards and says, “We want our money back. You’ve been overpaid.” We have to deal with that and, what is more important, our constituents have to deal with that. These are people who do not have a great deal of money. Why are you focusing so hard on correction and detection of overpayments in the past and not focusing more on prevention, which is what both of you said you were going to do when we got to the spending round in 2010?

Robert Devereux: There is part of your premise which has simply ignored all the work that the Government have done on redesigning the benefits system. There are two chapters to this story. There is what we have been doing in the current five years, but the principal reason that things will get better is because the product set that we will be operating will be better because of all the hard work we have been doing in the past five years. That is an important point to make. I am not going to accept that the Government have somehow only used that in detection. The entire point of reconstructing the benefits system is to give us the chance not to be doing that. That is the first thing.

The second is about paying this out and paying us back. Most of this problem is people who have not told us things that they should tell us, so I am consequently trying to find ways to find that out promptly and effectively. A lot of the productivity gains that we have had are from getting our staff, whenever they are on the phone, to say, “By the way, can I just check that x, y and z still remains the case? Is there anything else you want to tell me?”, which stops us having to have after-the-fact, customer-led correction.

Q63 Stephen Phillips: On the second of those, you were the ones who expected to spend £127 million, I think it was—the figure is there under figure 7 somewhere—on detection, which would save our constituents from being paid too much money. We have just heard that you spent a lot less than that. That has a cost associated with it in terms of people having to deal with overpayments. There does not seem to be any appreciation on your part or that of the Department that that is the case.

Lin Homer: So—

Stephen Phillips: No, Ms Homer. I'm just dealing with DWP at the moment.

Robert Devereux: The detection line—

Q64 Stephen Phillips: Paragraph 2.21 says that you expected to save £1.12 billion. You were going to spend £192 million on projects for preventing high-risk payments. In fact, it says in the last sentence that you now project you are only going to spend £27 million.

David Mowat: That is the top line of figure 5.

Q65 Stephen Phillips: If you go back to finding 14, you have undershot what you told the Treasury you were going to do in terms of preventing errors by £100 million.

Robert Devereux: In the long answer I gave your colleague, I went through that top line and explained that we had one particularly large intervention.

Q66 Stephen Phillips: Hold on; as I understood your answer, you are blaming individuals for not telling you about changes in their circumstances, which is resulting in significant overpayments—fraud and error. Why do you not do more to tell people what they ought to be doing?

Robert Devereux: With the greatest of respect, that is precisely what we have been doing in redesigning the benefits system. Most of these claimant errors are to do with earnings—undisclosed earnings.

Q67 Stephen Phillips: That was your first point. I was actually on your second point. You are now saying that it is all going to change under universal credit. Is that right?

Robert Devereux: I am slightly losing track of which question you are asking. You were asking me about claimants and whether I was doing enough to help them get it right. My best answer to that is: I am redesigning the system to make it so much easier for them to get it right.

Q68 Stephen Phillips: You gave me two reasons. The first of your reasons was, "It's going to get better in terms of prevention because we're redesigning the system." Is that a reference to universal credit?

Robert Devereux: It's a reference to universal credit. It's a reference to how the new state pension will take people off the pension credit. It's a reference to the changes we made to personal independence payments.

Q69 Stephen Phillips: How it is going to get better from universal credit is figure 7, as I understand it, on page 25 of the Report.

Robert Devereux: Correct.

Q70 Stephen Phillips: So the headline here, if you like, is that you expect universal credit to reduce fraud and error by £500 million each year once fully rolled out. That is what the NAO say. Is that what you told them you expect to happen?

Robert Devereux: I alluded to this earlier on. There are two—

Q71 Stephen Phillips: Sorry, Mr Devereux. Is that what you told them you expected to happen, in these specific terms, as a result of the roll-out of universal credit—yes or no?

Robert Devereux: I helped them to construct a table that shows there is a £2 billion saving. The point about it is that some of it gets scored technically as fraud and error and some of it was never scored previously, but it is all wrong.

Q72 Stephen Phillips: Right. Now, in 2010, as we know from key finding 14, you thought you were going to save £100 million more in terms of prevention than you have actually achieved. Why should we have any more confidence in what you say will happen as a result of the roll-out of universal credit, given that you were wrong last time round?

Robert Devereux: A fair observation. That was the strategy written within a few months of Ministers arriving and launching on a thing called universal credit, which I think had not even got to its White Paper at that stage. I am now four or five years further down the line, and I know a lot more about the subject. I have already built some of the things that are in operation, so it is the difference between a plan to the best of the Department's ability at the time and—

Q73 Stephen Phillips: Let's get this right. It was a rubbish guess in 2010. Now it is based upon four or five years of experience, so you are confident you can get the £2.1 billion.

Robert Devereux: With the greatest of respect, some things in life are hard to estimate in advance.

Q74 Stephen Phillips: Ms Homer, the same question to you. Figure 6 shows your fraud and error investigations. As I understand it, HMRC does not take responsibility for any fraud and error at all. According to you, it is all customers not telling you what is going on. Is that right?

Lin Homer: Sorry?

Stephen Phillips: HMRC does not accept any fraud and error in its own systems; it is all down to customers not telling you about changes in circumstances.

Lin Homer: Yes, but this is the design of the system. We have said in front of this Committee on numerous occasions that the complexity of the system is largely what causes that. We are not just saying it is sloppiness. It is a very complex system. It makes it very difficult for people to get things right. The comment I was going to make—

Q75 Stephen Phillips: Just pause there, if you would. The problem with that is that if you do not accept any responsibility at all for errors that people make in not telling you about changes in circumstances, you do not have to focus on prevention at all as an agency, for the simple reason that none of it is your fault.

Lin Homer: No, that's not the line we take at all. The point I was going to make is that, although prevention has been a smaller part of what we do—indeed, short of revising the whole system, it would be difficult to make it bigger—I strongly believe that the work we do on correction, which is big for us and for Robert, is us absolutely accepting our responsibility. That, too, goes to trying to ensure claimants are helped to avoid the consequences that, as Mr Mowat and you rightly pointed out, can be dire for them.

Q76 Stephen Phillips: Well, 80% of the losses you are saving are correction and—

Lin Homer: Yes, but can I give you an example? If we can prompt a claimant really quickly, either by using our data analytics or by using real-time information to say “We think you might have got this wrong”, we might be correcting something that could lead to a 15-month overpayment in a matter of weeks or short months. That isn't as good as getting it absolutely right first time, but it's an awful lot better than waiting 15 months and then saying, “That's wrong.” So we do accept responsibility.

Q77 Stephen Phillips: I understand that, because of the time lag, it is difficult for the agency. I understand that for DWP and in relation to housing benefit, too. Why aren't you focusing more effort on educating people to prevent such errors from occurring in the first place?

Lin Homer: We are, and in the annual Report—not this Report—the NAO accepts that one of the things we have done well is educate claimants. I realise that you have not got it in front of you, but we did talk briefly last week. In recognising some of the things we have done, the NAO made the point that by giving our telephony staff better information we were able to educate and support the claimants and reduce the overpayment risk—perhaps not to nothing via prevention, but to a much smaller amount. I think that is us accepting our responsibility.

Q78 Stephen Phillips: For both of you, the Committee is going to have to form a view when we report this matter to the House. Do you think that both of you could be focused a bit more on prevention than you currently are?

Lin Homer: I think it would be difficult for us. We have looked very seriously at major legislation in relation to tax credits, as opposed to marginal, but in the timescale involved, we think the complexity you would cause the claimants for what will be a transitional period anyway is probably not sensible. We think our major investment in digital—allowing tax credit claimants to renew online and prompting them to tell us about changes of circumstances online—is a good bridge between a complete redesign of the system, which is not justified before UC, and doing nothing. With high-risk claimants, we could get to the position where we are prompting them much more regularly. With children in full-time education—

Q79 Chair: Could you just define a high-risk claimant?

Lin Homer: Someone who has made significant mistakes that have led to overpayments lots of times. It may be because of the volatility of their earnings or their family circumstance. We can say, “Having plotted and seen your pattern of behaviour, if we prompted you to update us on your little one’s childcare costs more regularly, would that help you stay in good shape?” We think that is a legitimate simplicity, or a smoothing of the complexity, in a programme that is already in transition.

Q80 Stephen Phillips: Do either of you have an app, so people can notify you on a smartphone that their circumstances have changed and then you can call them?

Lin Homer: Yes. Last year we introduced a digital renewal for tax credits, and in the final week of tax credits this year 48% of people renewed using the digital line, many of them using smartphones. They were tweeting each other to say, “This is really easy. Use it.”

Q81 Stephen Phillips: That is very helpful. Mr Devereux, the same question to you. This Committee is going to have to form a view about it. Do you think you could and should be doing more on prevention? I know you are doing work on correction and detection, which seems to be resulting in the recovery of significant amounts of taxpayers’ money, but we are talking about real people who are overpaid, spend the money and haven’t got it to pay you back. Could you do more on prevention?

Robert Devereux: Potentially.

Stephen Phillips: Thank you. That is very fair.

Q82 Chair: We may come to this in a bit. I want to touch on the issue of the £1.6 billion a year in underpayments. Little emphasis is placed on reducing underpayments. Could you set a target for that, Mr Devereux?

Robert Devereux: I was going to elaborate until you decided to go for my one-word answer.

Q83 Chair: We like one-word answers sometimes.

Robert Devereux: I know you do. One of the reasons why we are getting better at doing the sort of work you are asking us to do is that we are getting better at engaging with staff on a holistic basis. As you probably know, I used to have a contact centre arrangement and a set of people processing benefits. I brought those two together, so when people ring up they get the entire service in one go. The advantage of that is that the person who knows all the rules and knows how to deal with the person is dealing with you straight away.

Let me pick up one of the points made by the National Audit Office, which was: “Yes, but you’re chasing people to process quickly, because the other thing you want is your claimants paid promptly. Is there a risk that the speed is working against the accuracy?” We put quite a lot of effort into the quality side of the house, which has changed the NAO’s view of—

Q84 Chair: Can you set a target to reduce this? That is the question.

Robert Devereux: We have not historically set targets and no Government have previously.

Q85 Chair: Would you be able to do that? We are tempted on that score, because we have to make recommendations to the House, as Mr Phillips has reminded you.

Robert Devereux: Yes, well, I shall look forward to reading them.

Q86 Chair: But do you think it is something that you could technically set a target for, given what you know—all the metrics you’ve got, and, as you say, bringing together two different teams?

Robert Devereux: One of the things that is going on in universal credit is that a significantly greater take-up is going to take place. Underpayments—“You were entitled to it but you weren’t getting it”—are going to be significantly helped by the fact that actually, you haven’t got to make the six claims, or dodge around the system and find three authorities; the local authority, me and—

Q87 Chair: We are hearing a lot about universal credit, but let’s move on to Lin Homer on this same point about underpayments. Do you think it is a target that you could technically set and achieve?

Lin Homer: I think we would clearly want, for the rest of the period in which we are running tax credits, to try and minimise the risk of inaccuracy. What we have traditionally

done is send quite a complex claimant settlement letter, which is very hard for people to understand.

Chair: Absolutely. I get them at my surgeries.

Lin Homer: We say, “Please check this because this is your formal record”, so one of the things we are looking at is whether we can help—again, using the digital account, but also clearer information—to allow people to check very carefully. But with the complexity of the system, we are always going to have some underpayments as well as overpayments in the current system. They are quite a small part but we try to prioritise them when they happen, don’t we Nick?

Nick Lodge: The renewals part of the process is really important for tax credits, so it is at that stage, really, that we are reconciling what has happened through the year with claimants. Obviously, we do everything we can, including having calculators online and that sort of thing, so that people can make sure they get the information to us correctly.

Q88 Chair: You talk about transparency. We see those letters at our surgeries, both from the DWP and HMRC. They are mostly impenetrable, frankly. When you are at a busy surgery with 40 people queueing and someone presents you with a letter with a load of figures, you think “No wonder they can’t understand it”, and it takes quite a lot of work to get into it. I think there is an issue of cost shunting, which, as you know, the Committee is quite concerned about. When something is very complicated they have to go to some other agency to have them explain a letter that should be transparent in the first place.

On underpayments, we know—it has come out from what you said, but also from the Report and other places—that most of the challenges come with renewal, because of the change of circumstances, and that is when error very often creeps in. Have you got really good plans for making that simpler for people? You have talked a little bit about online and about whether people are asking the right questions, but what else will really bite with people, because it is very complicated when you are the claimant? How are you going to do that?

Lin Homer: I might ask Nick to talk you through some of the things we are doing. I am not 100% optimistic that we can make the tax credit system easily understood by MPs or claimants in the time we have left, but we are doing some things to try and ensure the right prompts are ours at the point when people telephone.

Nick Lodge: For example, we have used real-time information—the RTI system—to prepopulate people’s renewals forms for the first time this year. We use that same information when they respond to us to try to get their award right on the basis of the correct income. As Lin mentioned, we have developed an online service and an app that people can use through their smartphones, and we are going to deploy that through the whole year, so that we can build something that people find easy to use and can tell us about their changes on easily and quickly, 24 hours a day, at their own convenience. We have found that, actually, tax credit claimants have a need for easy contact and actually like using the online service and did so—

Q89 Chair: That's great and I'm a big fan of RTI, but I do have constituents—I know we all will—who get wrong information from their employer on their payslip. Perhaps the hours are miscalculated or overtime is calculated in different ways. That can cause a myriad problems. What sanctions are there for employers or how do you encourage employers—whichever way you choose; I don't know whether you prefer sanctions or encouragement—because that has a devastating impact on the individual, and once RTI gets in, that becomes the golden truth, whether it's right or wrong?

Lin Homer: We did an awful lot of work with employers to clean up their data to go into RTI. I'm not suggesting there aren't cases where double-reporting or failure to report is happening, but I think the introduction of RTI has seriously cleaned up employee data in a way that really helps us all.

Q90 Chair: Do you know what the percentage of error is in RTI?

Lin Homer: The percentage of accuracy is in the high 90s, so it is very tiny sums. What we are continuing to try to do with RTI is spot indicators that something is going wrong, so if we see an employer give us 11 months of info and then—I know it sounds silly—not deliver month 12, as opposed to assuming they had no staff that month, we'll go back and say, “Are you sure you haven't missed something?” So we are doing what we can, all through the system, to build in-built triggers. Generally, HMRC is now building some of our triggers into the software that is sold to big and small employers, so that the software providers can build in something that says, “HMRC will ask you a question about that. Do you want to check it before you submit it?”

We are right at the foothills of this much cleverer use of data and technology, but we believe it's very powerful in nudging people into checking and getting things right much earlier in the system. We are just beginning to play with the value of doing that for individuals as well as, as Nick says, with tax credits, but I do think we've got to learn to run before we can walk. I am confident we are now basing income data of a wholly more up-to-date PAYE system than we were when I first sat in front of you three or four years ago.

Q91 Chair: I think we would acknowledge that there has been a massive change and improvement, but it is interesting to know what the accuracy rate is. Mr Devereux, from your side of things, how are you going to tackle this?

Robert Devereux: Using the same technology, effectively. The way in which we are constructing the universal credit declaration, on a monthly basis, is to give people the opportunity, including on their smartphone, to say, “Actually, these are the numbers for me this month.” Instead of it being a system where at worst, under tax credits, you are asked at the end of the period, this is something which time after time they will be declaring: “This is my position. Do your sums on this basis”—with, by the way, the exception of the earnings, which we are getting from a third party to stop them making the errors. I genuinely think that the combination of the work that Lin is doing with employers and the design of the system that puts in front of them on a regular basis—remember: this is working two ways. It's not

just about getting the benefit correct; for a lot of these people, we are also trying to encourage them into work or to change their hours, so the dialogue between us is a continuous thing. In that context, even when they are out of work, they are getting used to engaging with us much more frequently and remotely than they are used to at the moment.

Q92 Chair: Well, I hear lots of things, but this is not the place to discuss the ins and outs of things like Universal Jobmatch—the interface with people. But let’s face it: they do not all run smoothly. We’ll come back to that at another hearing.

The fraud and error rate that you predict when universal credit is rolled out is 2.5%. Is that right?

Robert Devereux: No, 2.5% is the figure in that table for aggregate welfare benefits over £225 billion—

Q93 Chair: Okay. Once it’s down to that level, though, can we not be working to prioritise prevention?

Robert Devereux: The question then is: what do we think will be the principal issues in that projection? We know that at the moment by far our biggest problem is undeclared earnings and we know that the combination of RTI and the design of UC will help that. The next one up is going to be household formation.

Q94 Chair: Which is a huge challenge.

Robert Devereux: It is a huge challenge because it’s technically difficult to do. I could make it go away immediately if we just decided that we would pay a couple twice—two singles—but we don’t do that, because we think, perfectly properly, that they only deserve 1.7 or something, thus there is a very strong in-built incentive for you to misdeclare. So what we’re trying to do there is to say, “Well, what are the cute ways of doing that?” I do think that the Revenue have found some ways, through the way they’ve been thinking about life, which we would hope to borrow as they develop their systems. But that is an intrinsically difficult thing—what is going on in household formation. For some of the rules that we apply, when you come to modern relationships, it is quite difficult to be really clear about what it is, explain it and police it from a distance.

Q95 Chair: And codifying it—we recognise that there are challenges there particularly. One other thing is that we have talked a lot about is changing the design of the schemes, whether that is the rules or the interfacing, but that requires, as you highlighted, more frequent reporting requirements. That will have an effect on claimants. Some of my constituents will find that online interaction difficult and others have literacy or language issues. Have you modelled the impact on those claimants? Have you looked right down to that granular level? You are both dealing with huge programmes but, at the bottom level, they impact heavily on individuals. What have you done to mitigate against the impact on them?

Robert Devereux: If I go back to the spending round conversation that we have had, in building up what the cost of my Department might be in 2020 with universal credit, we have gone through in really quite a lot of detail. We say: at the point of initial claim, what assumption do we make about the people who are happy to do it online, are capable of doing it and get all the way through with no intervention at all? Answer: x%. How many of those people online might actually want to ring a friend in a contact centre as we go along? How many of those people would be happy to do it online in one of my offices with a bit of help? We have gone through it item by item. We have not simply said, “Good news. Online. 90% pots of savings.”

Q96 Chair: No, we are not suggesting that. Even if you are not doing it online remotely from your home, if you are lucky enough to have broadband and internet access—which, in Norfolk, you don’t—it is still a challenge. If you talk to anybody about universal jobs match, the people who are going through that find it quite clunky at times. There is an impact on them, even when you have a system that you have modelled and checked all this on.

Robert Devereux: All I am saying is that we are not putting a bid into the Chief Secretary to say, “This will all be online, you don’t have to worry about it.” I am actually pricing in help, whether it is my own staff or whatever, and that says, “You cannot assume that this will all be straightforward.” The size of my Department in 2020 will reflect my best assessment at the minute of how much effort people will need in the way of hand-holding to run a system, even when it has been well designed. For the great majority of people it will work well but, for a lot of other people, we will need assistance.

Q97 Chair: You have done some modelling. You talk about the percentages who would be able to do it easily and so on. Have you tried it with real people?

Robert Devereux: Yes, we have.

Q98 Chair: I know you have with the early bit of UC but, more properly, with the changes that will be coming down the line. Do you try that with real people?

Robert Devereux: Yes, we do. As you know, we have been doing this in Sutton and we are going to Croydon. At the moment, the percentages of people getting through without any trouble seem to be a lot better than some of our more conservative assumptions but—

Q99 Chair: But you are dealing with simple cases at the moment, aren’t you?

Robert Devereux: Not in the service that is running in Sutton, which is wholly built on a digital system. It is all-comers. That was done that way very deliberately. We chose Sutton—I hope I don’t offend anybody—because it is a very average place. As far as our statisticians are concerned, it is as average as it comes. We are trying to get some sense about

what the spread will be because it is critical to projecting an entire Department. If I had many of these people, they would be in different categories.

Q100 Chair: Can I just ask one more about the impact of the changes on more vulnerable claimants—this is for things like pension credit and PIP? I don't need to tell you this, but we have had a Minister standing up in the House and apologising about PIP before it even gets any further, so there have been problems there. Have you modelled the changes—

Robert Devereux: The principal change with pension credit is that you will not be claiming it in anything like the numbers that people are claiming it at the minute. People simply will have no entitlement to it because their state pension will have floated them off any entitlement to means-tested support. As far as pensions are concerned, that design change is a huge difference to their ability to interact with the system. They just get a pension—done.

Q101 Mr Bacon: I have one specific question about something that you were discussing with the Chair a moment ago. Mr Phillips has just been berating me for having this old-fashioned BlackBerry rather than a posh, modern smartphone, but I like simple technology. I was in Argos the other day buying something. They used to have a 1400-page catalogue. It doesn't exist anymore; it is just a large tablet fixed on a stick. It is very simple to use and almost impossible to get wrong, even for someone like me. When you are designing your systems for use in centres where people actually turn up, to what extent are you looking at what is done in the private sector—for examples, in places such as Argos or others—and copying the good ideas that you see? Are you doing that?

Lin Homer: Yes, and more than that we are saying to the designers of APIs¹ and—

Mr Bacon: APIs? We try to avoid TLAs in this Committee.

Lin Homer: These are the systems that work on other people's products—mini-programmes that are available on your smartphone.

Chair: Apps.

Lin Homer: Yes; well, the program that sits behind the app.

We are trying to design ours so that they are tested with real folk. If you remember RTI, we introduced it quite slowly with groups of people, and we iterated it as we went. What we are also saying to others is, "If you can design a gateway into our system that is simple to use and that people want to use, and if the security docks in the right way, we will let them come in via your system." I mentioned software. Most small businesses—there are 5 million of those—will use some form of software to run their business. If people design that software so that it completes our needs as well, the business just uses the one piece of activity and we take our feeds off that. We do not even think we copy them; we let them do it for us, if we can make the interfaces work.

¹ **Application Programming Interfaces (APIs)** – programmes that define how one application talks to another application, allowing it to access resources, data or a service.

Q102 Mr Bacon: So there could be an almost infinite number of different front ends from the consumer's point of view, but you are saying it doesn't matter so long as—

Lin Homer: Provided that the interfaces work. If you like to use old-fashioned parlance, for those of us who still hanker somewhat for the old days, it is a bit like a kitemark. Mark Dearnley will invite developers in, and they will joint-develop with us. We will check that we are satisfied with both the cyber-security and the ease of use, and then that product will be allowed to join with us. We think that that is the way you keep the best, most modern design, because we doubt we will always be at the leading edge.

Q103 Chair: I want to ask Mr Devereux about sanctions. Again, speaking as a constituency MP, that comes up for me all the time. What level of sanctions have you applied across the board on benefits in the last year?

Robert Devereux: I am guessing you mean penalties for non-compliance, not sanctions for not—

Chair: Yes, penalties to claimants, particularly of JSA.

Robert Devereux: At one point in the preparation I had some numbers. Do I have the volumes here? This may be too long a period, but since 2012, we and local authorities have imposed nearly 70,000 penalties for fraud and more than 150,000 civil penalties for claimant error.

Q104 Chair: For claimant error. Does that include fraud?

Robert Devereux: No. I gave you one number for fraud and another number for civil penalties. With civil penalties, by definition, there is no admission of guilt.

Chair: Sorry, I cannot hear you. Can you speak up?

Robert Devereux: I am sorry. The paragraph says “Since 2012, DWP and local authorities have imposed nearly 70,000 penalties for fraud and more than 150,000” civil penalties for claimant error.

Q105 Chair: What evidence do you have about the impact of punishing people on changing behaviour at a later stage? Does it have one? We often have this discussion vis-à-vis tax about the deterrent impact of punishment and whether it makes people stop doing it in future, or sends out the message more widely to other people that they will get caught, versus just happening once when a person gets a sanction and the money comes in, if you have put a financial sanction on people.

Robert Devereux: Sorry, are you asking me whether I know that people who have had a sanction—

Chair: Are more or less likely to do it again.

Q106 Stephen Phillips: There are two questions there. There is the effect on their behaviour, and the effect on the behaviour of claimants generally as a result of publicity surrounding the fact that you have imposed sanctions.

Robert Devereux: I don't know that I have information on the first question. I will go away and check. Because the sanction regime has been changed significantly in the last couple of years, it is quite hard to know some of that answer on a consistent basis, but let me go and find out. In general, ever since I was first doing this in 1998, all Governments have sought very consciously to keep in the public eye the fact that this is not what the welfare system is about. We deliberately take cases to court to make a point of a deterrent nature, because these cases cost us money to prosecute.

Q107 Chair: It is difficult to assess the impact completely accurately, I recognise, but you are giving quite a vague answer, if I may say so.

Robert Devereux: I am giving you a vague answer because I am not confident that if I went back to the ranch and said, "Prove beyond peradventure what the deterrent effect of prosecutions is," it would be a knowable answer.

Q108 Chair: Do you know about people who are repeat offenders, for instance? Do you have figures like that?

Robert Devereux: Yes, I get the line. Can I write you a note because I just do not have the data with me?

Chair: Please do, because it is quite important that we get a handle on it.

Robert Devereux: If it turns out that I don't know, I will let you know, too.

Q109 Stephen Phillips: When did you last ask the Department's economists to look at the financial benefit to the Department of the prosecutorial line that you take in terms of the number of people you prosecute?

Robert Devereux: Clearly, over the course of the past few years, we have significantly changed these to civil penalties to get out of the very large costs. The answer to the question of whether I have asked the economists to do that is that I haven't, so let me go and check.

Q110 Stephen Phillips: Do you think it might be a good idea to get them to look at the enforcement regime—criminal and civil—asking, "How much this is benefiting the Department? Could we do it in a different way that might benefit us even more and let's model that?" Isn't that a piece of work that ought to be done?

Robert Devereux: I am making a distinction between whether I have personally asked them—I have not—and whether the question is none the less being asked by officials, which it may well be.

Q111 Stephen Phillips: I appreciate that you cannot know everything that is going on. Perhaps you would let us know, Mr Devereux?

Robert Devereux: I will.

Q112 Chair: I have a few quick points to raise—some of them, forgive me, are slightly off the Report, but I will raise them as you are here—and Teresa Pearce is going to come in on something to do with tax credits.

On credit reference agencies, which are referred to in the report, HMRC is using them very effectively, but we are told that DWP does not use credit reference agencies in the same way. Why not, and are you going to try to learn from HMRC?

Robert Devereux: The answer to the second question is yes. The answer to the first question is that we do have access to them in cases of individual investigation. So, if someone says to me, “Mr Devereux, here’s a bad thing,” I send a fraud investigator off and they can go and find the credit reference agency data. The thing that we tried to do was to see whether credit reference agencies could help us to identify ab initio potential cases of risk—looking at your data, can you spot people who are living together or whatever it is? We got really poor results from that question, partly because they were finding people who were living together who turned out to be sisters, brothers or uncles. They were all at the same address and all had different accounts, but they had not established any economic relationship between them.

If I have understood it correctly, what the Revenue has done is that because it has been building a system progressively over time primarily to chase after tax and to find out things, it has built a system that has now got slightly better information in it about some of the things we are interested in. Both of us know whether we are running more than one bank account into a particular organisation. You have a bigger incentive to run more than one bank account if there is a bit of tax avoidance. I think that Lin is ahead of me. Our view is that where the Revenue has used credit reference agencies on top of risk assessment done in house, as it were, it has got a good result. We were using them without the benefit of having that, partly, coming back to the answer I gave you earlier, because we had not constructed the IRIS system, but in principle at least the data that we now have access to—I have the same access to historical records as Lin—should mean that in the fullness of time I will get the same benefit from it, which will be about trying to make sure that we have gone beyond a shot in the dark. I am afraid that the credit reference agencies are not really more capable of doing that than we are.

Q113 Chair: Okay, but are you going to be using them more before UC comes in? Universal credit, I should say, in case anyone is listening.

Robert Devereux: The short answer is that if we can demonstrate that we have a better a priori view that the following 20 people might be worth the credit agencies washing them through their system, I think we will do that, but we have to establish that we can get to a better a priori view rather than giving them 100 cases and their coming back with rubbish, because it consumes lots of resource checking up only to find that it is two sisters.

Q114 Chair: It is useful to know that.

The single fraud investigation service—how is that going?

Robert Devereux: Fine.

Chair: A one-word answer. Perhaps we could have a little more, Mr Devereux, on this occasion. We like short answers, but a little bit more than that would be good.

Robert Devereux: Jon, why don't you have a go?

Chair: Mr Fundrey, you have been sitting here for a long time, so perhaps we can hear from you.

Jon Fundrey: Thank you. Very well.

Chair: Surprise surprise.

Jon Fundrey: I would say that, wouldn't I? We have 244 local authorities signed up and 136 to go, and 1,000 staff transferred. The transfer is going very well. I think it is one of the biggest TUPE transfers, or COSOP transfers, in Government. It is running very well and we are finding that the benefit we hoped for—more pan-benefit investigations—is being demonstrated.

Q115 Chair: Are you confident that that will continue in the future? One of the concerns raised about this was that we would lose that local granular knowledge. I think, Mr Devereux, that from memory you said that that will not happen because they will be in local teams. They are being TUPE-ed over, and that is fine now, but what about in three years' time? Are you predicting that we will keep that local granularity that you promise?

Robert Devereux: Yes. It is not with SFIS for this. What we have found in the work we have done on the universal credit to date is that because it incorporates universal credit, you need people locally for them to understand what the housing market looks like. Whether it is investigations or the administrative side, there is something intrinsically local about housing, so we are trying to make sure that we have the right staffing, including local authority and ex-local authority staff, to make sure that we have that local knowledge. We have a very strong interest in keeping that refreshed.

Q116 Chair: Forgive me; I should have warned you that we would be going into this a bit. Will you be benchmarking from what you inherited to where it is going to be in a few

years' time when everyone has transferred over? I have had concerns raised with me that there will be a lot of loss in detection because of the change, and we need to follow that through as a Committee.

Jon Fundrey: Yes, we will. To be honest, when we modelled it, we also assumed that there would be initial drops in productivity in the early days. We are not actually seeing that. It is early days, and we will be tracking it.

Q117 Chair: Okay. We will be coming back to that, I am sure. Ms Homer, this is slightly off the subject, but while you are here, I am interested in how the Customs side of your operation is going, particularly on fuel fraud in Northern Ireland. Do you have anything you could tell us? I am not going to hold you to every figure, because I haven't given you prior warning.

Lin Homer: I am not sure I will be able to give you absolutely every figure, but as I am sure a number of you know, the laundering of red diesel is a big issue, not just in Northern Ireland; with the boundary with southern Ireland, there is a particular angle. We have recently introduced a new marker, and we have recently improved our ability to do roadside testing. We have had some initial bedding-in issues, and we discovered we had to finesse one of our protocols around testing, to make sure that the tests were valid. But we are confident that we are now making it much more difficult for people to pass off red diesel as fuel. All I would say is that I think the XST went on a visit himself recently, and not everyone is bothered about whether they are hiding red diesel. On one of the raids that he was involved in, it was unadulterated red diesel, so we should not think that markers will be the sole solution. We need to continue traditional enforcement as well as markers to make sure that the incentives for avoiding that duty are minimised.

Q118 Chair: One of the concerns that has been raised by the Northern Ireland Affairs Committee and colleagues representing Northern Ireland in the House—10 years ago, I was looking at this when I was on the Northern Ireland Affairs Committee, so I know that the fuel problems are an issue—is the Dow fuel marker. That is the new fuel marker that you have brought in, which one of your staff, Pat Curtis, who is the specialist investigator into fuel laundering in HMRC, described as “ground-breaking technology. There is no other trial of these...in vehicles like this anywhere else in the world.” That was in June this year. I have been told that there are serious problems with this marker and that, when distilled, it disappears. Is that true?

Lin Homer: No. We have been seeking to test the Dow marker under laboratory conditions, and so far we have not found it possible to easily and readily launder the marker out. However, it is our experience over a number of years that the criminal profits to be made in these areas—a bit like the importation of tobacco or alcohol—are such that it brings all sorts of ingenuity to the fore. We would intend to—

Q119 Chair: So they are getting ahead of you?

Lin Homer: Well, they catch up quicker than we would like, rather than getting ahead. As I say, so far this marker has proven to be very difficult to launder, even in laboratory settings, whereas earlier markers could be relatively easily laundered out in still substantial—you could spot the factories with heat-seeking cameras from above, but when you got there, they were fairly crude. This needs much more sophisticated machinery, and we think still leaves traces. We think it is robust. Probably, it would be wrong of us ever to declare success for all time, and I think we will continue to look at the market to ensure we know both what the criminals are up to and what the other developments are in the market. Both for the criminals to cheat us of our marker and for other people to bring products to market—both are sensible markets for us to keep our eye on.

Q120 Chair: Okay. Just to flag up to you, if you are not already aware, that that is a very big concern to Northern Ireland colleagues, who were particularly keen that I raise it.

Lin Homer: Yes, I am very aware of that, and the Minister is very keen that we stay in close discussion with Northern Ireland².

Chair: Great. I am going to ask Teresa to come in on tax credits and enforcement.

Q121 Teresa Pearce: Ms Homer, I believe your Department has entered into a three-year contract with Concentrix to help you bring down the fraud and error bill. It is reported that it is a £75 million contract. Is that correct?

Lin Homer: It is a three-year contract, which we think will be between £50 million and £70 million if all goes according to plan.

Q122 Teresa Pearce: Is it a payment-by-results contract?

Lin Homer: It is payment by results, which again is perhaps an indication of something we talked about earlier. Our initial estimate was that this might bring in as much as £1 billion. Partly because circumstances have changed and the level of fraud in the system is now lower, our current view is that there is about £420 million of AME savings to be made. If you look at that in broad terms, there is getting on to the 10:1 or 11:1 return that we

² Clarification added by the witness, Lin Homer: “HMRC has not found it possible to launder the marker in a large scale test and does not believe that the laundering process is replicable outside the laboratory at sufficient scale and operability for criminals to use. The use of vacuum distillation would require the rebated fuel to be heated to a constant temperature over a period of time which would result in detectable electricity use or radiant heat. Additionally, the process would need the criminals to stay on site to monitor it, all drawing attention to the activity and making detection more likely. Previous laundering activity has been at a low level of sophistication using absorption or filtering techniques which could be left to run without manual intervention making detection by law enforcement agencies more difficult. HMRC will shortly publish an initial evaluation of the fuel marker in its first six months of operation.”

generally make. That is, in a sense, an extension of resource in the private sector to do what Nick is already doing in-house in a very similar risk range.

Q123 Teresa Pearce: Do they have set targets within their contract?

Nick Lodge: The contract is published in accordance with the general rules, but there are various elements of the contract around performance, not just savings but other elements of performance that you would expect such as serving customers and that sort of thing.

Q124 Teresa Pearce: When they take up a case and write to somebody, who has indicated that that is the person who should be looked at? Is it the Department, or is it the company?

Nick Lodge: As Lin said, this is an extension of what we already do. We have around 1,500 people inside HMRC carrying out checks throughout the year, as we described earlier, to help to get awards on the right footing.

Chair: Sorry. Could you speak up a bit, Mr Lodge? There are bad acoustics in this room.

Nick Lodge: Concentrix are carrying out additional checks, over and above those checks. We select cases—

Q125 Teresa Pearce: So the Department selects the cases. They don't just fish.

Nick Lodge: No, absolutely not. The Department selects cases where we have some kind of indication that there might be something wrong. From the batch of cases that we select, Concentrix will themselves select the cases on which they will work. They are selecting their case load from a batch of cases that we have pre-selected for them.

Q126 Teresa Pearce: So HMRC—when it comes to tax returns, for instance, and you want to inquire into someone's self-assessment—has very strict information powers that are set down in law. What information powers does Concentrix have?

Nick Lodge: We have delegated certain powers to them, which are set out in the Tax Credits Act, to enable them—

Q127 Teresa Pearce: You delegated information powers to them?

Nick Lodge: We have delegated to Concentrix the powers they need to carry out the checks, as we carry them out.

Q128 Teresa Pearce: Do you think it is right and proper that they should write to people and give them fewer than 30 days—it is 30 days from the date of the letter, and it often takes three or four days for the letter to get to you—to provide mortgage statements, rental agreements, bank and building society accounts, post office accounts, and gas, water, electric and phone bills for a complete year? The letter says that if that is not provided, your benefits will be suspended. Is that something HMRC would do with information powers when they are asking for a whole year's statements? For instance, I don't get a phone bill—I get a text telling me how much I owe. For me to obtain phone bills would probably take me a month. Do you think those are the right criteria to set down—that if you don't provide a whole year's worth of documents, your benefits will stop?

Nick Lodge: Concentrix are very largely mirroring the same processes that HMRC uses. There is nothing new or different in the way they approach this. They are approaching it in exactly the way that we would approach it.

Q129 Teresa Pearce: So you endorse what they do?

Nick Lodge: They're our processes.

Q130 Teresa Pearce: Okay, so what would happen if someone is sent one of these letters and they don't get the letter? There are instances where somebody has been sent a letter, but it didn't arrive. It happens, especially if people live in a block with external letter boxes. People can come along and take other people's post, which happens a lot in my constituency. I have an instance here of a person who didn't get the letter and his tax credits were just stopped, and it was going to take 48 days for the tax credits to be reinstated. He didn't get the letter, and even if he did it would be fewer than 30 days for him to provide a whole year's worth of documents, yet it takes 48 days for you to reinstate his tax credits. Is that right?

Nick Lodge: I absolutely appreciate, and Concentrix absolutely appreciate, that it can be difficult for claimants to provide all the information that we need. We are trying to make sure we are paying the right amount of money and helping claimants to avoid some of the overpayments we were discussing. I appreciate that in some circumstances it can be difficult for claimants quickly to provide the information we ask them for. We think 30 days is a reasonable period.

Q131 Teresa Pearce: For a whole year?

Nick Lodge: We also encourage claimants to get in touch with us if they are going to find it difficult, so we can discuss with them the kind of information that might help to put their award on the right footing. We are not looking for Concentrix to be overly threatening or draconian. We are looking to work with claimants.

Q132 Teresa Pearce: Many recipients of tax credits have said that they felt the letters were very threatening.

Nick Lodge: The letters they sent are very similar, if not the same as the letters HMRC was sending. One of the pieces of learning for us in the early stages was that people told us they found the letters overly threatening in tone. We changed the letters in response to that feedback, because that is the last thing we want to do. We want to encourage people to engage with us—or Concentrix, in this case. Only by talking to people can we make sure the award is on the right footing. That is absolutely what we want to do. We want to have that conversation and that exchange of information. The last thing we want is for people to find HMRC or Concentrix overly threatening. We changed the letters in response to that, because that is what we found.

Q133 Stephen Phillips: You are incentivising them to be threatening, aren't you, by paying them by results.

Nick Lodge: We are paying them by results in terms of finding incorrectness in the system.

Lin Homer: Not by numbers of letters.

Nick Lodge: Not by numbers of letters, no.

Q134 Stephen Phillips: Is any part of their remuneration based upon the politeness or otherwise of their correspondence?

Lin Homer: It's not based on the volume of their correspondence; it's based on the results.

Q135 Stephen Phillips: What driver do they have to make their correspondence fair but not aggressive? What do you have in the remuneration scheme for Concentrix to prevent them from writing the sort of aggressive letters Ms Pearce is talking about?

Lin Homer: We are requiring them to act in the same parameters we are acting within. To go back to the point about—

Q136 Teresa Pearce: Could I just say that if someone gets a letter from HMRC, they understand that? If they get one from a company that basically asks them for their entire identity, it's not the same, is it?

Lin Homer: I understand that. I want to anchor this back in the conversation we were having earlier about prevention and correction. We have £1.2 billion of fraud and error in the system. Household income is a complex part of the system, to go back to Mr Mowat's points. It is not simply, in our case, the PAYE income. At the point when someone makes a claim, it is clear to them that they are telling us things about all the things you just told us, so they

have some information when they give it to us. At the point of renewal, we ask them to confirm it. If we subsequently see something that puts that into doubt, there is a responsibility on the individual claimant to ensure that their claim is correct. Of course there is a balance, but we have built up our experience in this field using behavioural insight techniques. We are regarded as one of the Departments that has made the most progress in writing letters that are sufficiently firm to get people to take them seriously. If, as Nick has said, we get feedback that we have not got that right, we adjust it. Our evidence shows that if you can remind people of the need for accuracy and honesty, it is part of both the prevention and correction.

Q137 Teresa Pearce: But do you think it is fair to send one letter, with no check as to whether it arrived, and then just stop somebody's money?

Lin Homer: Yes, because, first, that will not have been the only interaction with us. There will have been a renewals process and an opportunity based on their original agreement when they made a claim to inform us of any change in circumstance. It is always prompted by some other piece of information that suggests that they have not done that.

Q138 Teresa Pearce: So you have a suspicion that there is something untoward, they are written a letter, which they don't respond to, and that's it.

Lin Homer: What generally happens is that if that happens and payments stop, we get a very quick phone call. We pride ourselves on responding quickly—this is true not only of tax credits but of tax—to cases where we see that people need enhanced support. We move swiftly to ensure that we are then correcting. I would emphasise that, as a claimant, there is a responsibility and an accountability.

Q139 Teresa Pearce: There is not a responsibility to respond to a letter you didn't get.

Lin Homer: There is a responsibility to tell us about changes without us writing to you at all.

Q140 Teresa Pearce: But your suspicion that someone is cohabiting or whatever could be wrong.

Lin Homer: There could be—

Teresa Pearce: So actually their claim is completely valid.

Lin Homer: It could be. This is the fine balance between pushing forward an error as firmly as we can, while fairly, and never making a mistake. I would accept that that is a balance.

Q141 Teresa Pearce: May we go back to the contract? They have the contract, and you pick, or the Department picks, the people who are to be investigated.

Lin Homer: Yes.

Q142 Teresa Pearce: Citizens Advice has said that it has seen a 20% increase in the numbers of those coming in querying tax credits since these people have been involved, yet apparently it has got simpler, which is odd. As they are acting on your behalf, and you have given them information powers, why were you not looking to see what sort of letters they were sending to your customers?

Lin Homer: We are.

Q143 Teresa Pearce: No. You are now, but why did you not?

Lin Homer: No, we were at the beginning.

Q144 Teresa Pearce: You authorised those letters that you now say were actually quite threatening.

Nick Lodge: These were letters that we were using—

Teresa Pearce: Why have you changed them if they were fine?

Q145 Chair: Mr Lodge, were you talking about previous HMRC letters?

Nick Lodge: Yes, indeed. These letters are very similar if not the same. Our experience from sending them out over a period of some years actually isn't that we have particularly had problems, but we did listen to and hear loud and clear feedback from people receiving those letters, which had joint co-branding if you like—Concentrix and HMRC. We heard what people had to say about finding them threatening, as you mentioned, and so we changed them. As for stopping to pay people who may not have received the letter, according to our normal practice, if we do not hear back at all within 30 days, we suspend payment and write again to invite people to contact us within another 30-day period before we end the claim. I am slightly mystified by the 48 days that you mentioned, and I would be very happy to look at that particular case for you because that would not be our normal practice.

Q146 Teresa Pearce: They were told it could be 48 days before the money was reinstated. Is that not the normal length of time?

Nick Lodge: I do not recognise that as our normal practice, which would be to write and to provide 30 days, and at the 30-day point we then suspend payments, not stop the award. Very often people then do contact us who may not have contacted us before. The

usual experience, as I understand it, is that those people are then put back into payment much more quickly than 48 days, so I am very happy to look at that particular case.

Q147 Chair: We have got some cases that we can put to you from colleagues who are not on this Committee. We will make sure that we do if you undertake to look into them and learn from them. That would be great and it will tell us what the issue is.

Lin Homer: Yes. Absolutely.

Q148 David Mowat: It strikes me from the dialogue that you have made a decision to outsource this function to Concentrix, and yet it is quite a core function of yours, whereas you are in the process of insourcing all your IT.

Lin Homer: Which is also a core function.

Q149 David Mowat: Usually you outsource stuff that is not your core function and you do what is your core function. Do you have an outsourcing strategy to make that decision? I am interested in the juxtaposition.

Lin Homer: I think that designing good technology to underpin our systems is core. As I said to you last week, we are not intending—

Q150 David Mowat: With all due respect, the dialogue that you just had with my colleague was more about your core function than operating IT systems, usually—

Lin Homer: It is heavily based on technology. It is supported by the data analytics that we talked about earlier.

Q151 David Mowat: It sounds as though following up on issues of that type is a core function of HMRC.

Lin Homer: No.

Q152 David Mowat: Okay. You don't think that is inconsistent?

Lin Homer: I think both are core. We are interested in ensuring that we can have flexibility of resourcing, and are progressing on that. In this particular case, we provide more of this service internally than externally by a significant factor and we are looking at whether the additional activity can be provided externally. Clearly, in a move from tax credits to universal credit, we are not looking at running tax credit systems for ever, and therefore for us to increase the number of people we employ in this area by between 200 and 300 at this time potentially means that we have a bigger problem when we downsize the service as it

transitions into UC. This seemed to us as a way that we could expand our resource sensibly, utilising the resources.

Q153 David Mowat: It might well be; I was not questioning that, but questioning the difference in approach with your supplier contract.

Lin Homer: No, we believe in a mixed economy across the piece.

David Mowat: That's fine. You have answered the question.

Q154 Chair: And we may want to come back and just ask what you got out of the contract that you think you would not have if you had had it in-house.

Lin Homer: £100 million that we would not otherwise have collected—so far.

Q155 Chair: Okay. So they are better than HMRC at the job, is that correct?

Lin Homer: No, they are just extra.

Chair: We may come back to that at a future point.

Q156 Stephen Phillips: I have a very simple question to which I would like a very simple answer from both of you. Sir Amyas Morse, who is sitting there, is the Comptroller and Auditor General, as you know. Mr Devereux, the Comptroller and Auditor General has qualified DWP's accounts every year since 1988-89, when I had more hair. He has qualified HMRC's accounts every year since 2003-04 on the basis of fraud and error because you are spending money that Parliament has not authorised you to spend—both of you. When are those accounts no longer going to be qualified, Mr Devereux?

Robert Devereux: Not in the next two years if the Comptroller and Auditor General continues to take a view that it is absolutely down to "If you spend £1," and that is not what we intended—

Q157 Stephen Phillips: I don't think that is the line that he's taking, is it?

Robert Devereux: It is quite close.

Stephen Phillips: Let's find out from him some indication of how much leeway he has. Then I want to know when you will be coming back to this Committee and we can congratulate you because both of your accounts are no longer qualified.

Sir Amyas Morse: I have had the pleasure not only of explaining this to Mr Devereux but, indeed, to members of his board, his audit committee and his Ministers. Every time, I have said the same thing. Let's hope that I can manage it again tonight.

The statute requires me to qualify if there is any sort of material, irregular payment. That is where I am. Earlier on, officials were quoting the importance of complying with the law and I have to do so as well. However, I have taken a view on that, which they know well. One: I am prepared to look at individual allowances and reliefs. I have tried to do that and I have made notes in my accounts to say positive things about developments in particular. This has never been done before.

Two: if I am satisfied that—not what the Department finds convenient to do—they have the level of fraud and error down to the lowest level feasible given the allowances in existence or approaching that, I have said that I will consider lifting that qualification. If they get to that point, I will lift it. That is far as I believe I can go because I cannot possibly interpret the law any more broadly than that. If it turns out that that cannot be done this side of bringing in universal credit, I very much hope that it will be possible afterwards, which is why I am keen to see some emphasis on prevention in that subsequent period. I have gone further than any of my predecessors in stating my position this way, but that is where we are.

Q158 Chair: So, can I just repeat Mr Phillips’s question? I do not think that I need to speak for him but on this occasion, as we are approaching the end, I am going to try to wrap it up. Mr Devereux and Ms Homer, when do you think that you might have reached the point that the Comptroller and Auditor General has outlined?

Robert Devereux: I personally doubt that we will.

Chair: I appreciate your candour.

Robert Devereux: And this is coming from an accounting officer who, three or four years ago when I started, said, like my predecessor, “I intend to get shot of this.” I guess my problem with the thesis is that this is a level of qualification that does not apply in private sector accounts. This is to do with regularity. It is not to do with whether the accounts are mis-stated. It is to do with whether Parliament intended it.

Q159 Chair: It is to do with the law.

Robert Devereux: It is to do with the law. If the exam question is, “Has it got down to as materially low as it could do?” as most of what we are doing has returns of 10:1, it seems that it will always be possible to say to me, “If you just put one more member of staff on checking one more thing”—

Q160 Stephen Phillips: I don’t think that is what the Chair was saying.

Robert Devereux: That is, in practice, how it feels. Let’s agree on this: the recommendation in this Report—primarily to me because I’m going to inherit the lot—is, “Benefit by benefit, set out your plan,” and then he’ll have a look and see what it is. I am giving you my candid opinion that I do not imagine that it will do. The reason that my board, including non-executives from the private sector, don’t agree with this is because they think

this is the wrong way to construct it. I can't pretend that either Ministers or non-executives agree with this principle, but I am happy to do the work that is necessary to try it.

Q161 Chair: It is the measurement as outlined in law. Did the Comptroller and Auditor General want to come in? We could get Lin Homer, then the Comptroller and Auditor General can come back.

Sir Amyas Morse: I think doing it piece by piece is the right way.

Q162 Stephen Phillips: So, Mr Devereux, your answer is never. What is yours, Miss Homer?

Lin Homer: I think mine truthfully is when tax credits have ceased to exist.

Q163 Stephen Phillips: You are just going to shift it all on to Mr Devereux.

Lin Homer: No, we will try to improve it before we shift it.

Q164 Chair: It is important, nevertheless, especially for anyone watching this, to understand that issue, so thanks for the answers.

Robert Devereux: Let me make one optimistic thought.

Q165 Chair: An optimistic thought from Mr Devereux. Yes, we wait with bated breath.

Robert Devereux: It's hard to imagine, I know. We have managed to persuade the Comptroller and Auditor General not to qualify our social fund account, which was the thing that had errors on its exchange.

Q166 Chair: That is the little bit you have left after the rest of it has gone to local authorities, is that correct?

Robert Devereux: Correct. Never mind. I am trying to be optimistic.

Q167 Chair: I think we are in danger going down a—

Robert Devereux: Secondly, he has lifted the qualification on the state pension, which is de minimis. You couldn't possibly qualify 0.1%. Who knows? I could not truthfully tell you that I am thinking that this will be—

Q168 Chair: We do appreciate the candour and we will return to this. I am sure you will have further discussions with the auditors. I want to thank you all for coming along today. We have heard a lot. We would agree, as a Committee, that the level of fraud and error is unacceptable across both Departments, but we recognise that there has been some progress, particularly with HMRC on tax credits. We also heard a lot about universal credit as the solution to all of this, but we know that there will still be £5.8 billion projected error when universal credit comes in.

Robert Devereux: In the entire system; not just universal credit.

Chair: Right. Across the system, when universal credit comes in. So it is not going to be the great single solution. Of course, universal credit is still six years off. We are going to be returning to this often in those six years, so we are still going to be looking for those improvements, because the impact on our constituents of a mistake is enormous. You are sitting there atop Whitehall making big decisions. Those decisions can wreck people's lives on the ground. That is what we are here to look at.

I have been doing a rough calculation of how much this is costing the UK taxpayer. Roughly, depending on how many households you consider are formed in the UK, about £200 per family in the UK is being over-distributed under the figures. I am sure you will come back, Mr Devereux. I am sure he is mentally doing a mathematical calculation to prove that is not quite right. I am saying "roughly".

That impact is enormous when you look at it like that. It is really quite significant. Many Chancellors would be very envious of having that much money to give every family in the UK. We will return to this and will hold you and your feet to the fire and ensure you are giving our constituents a better service than they are getting now. Thanks very much indeed for coming along and the progress you have made. We look forward to seeing you again.