



Department
for Work &
Pensions

THE RT HON THERESE COFFEY MP
Secretary of State for Work & Pensions

Caxton House
Tothill Street
London, SW1H 9AJ

202

July 2020

Dear Stephen,

Thank you for your letter dated 6th July 2020 regarding identity fraud and Universal Credit. As I set out in our previous response to the Committee on this matter, my Department takes the issue of identity fraud extremely seriously and we continue to look across government and the broader private sector to improve our approach to tackling those who attempt to defraud the system. I have responded to each of your questions in turn below.

What more can DWP do to verify the identity of new UC claimants, to ensure that they are who they say they are, and that their entitlement to the benefit is genuine?

Prior to Covid-19 we undertook approximately 25% of identity verification without face to face checks. In responding to the outbreak of Covid-19 we stopped face to face identity verification with most claimants, although we kept these for the most vulnerable people who could not engage with the Department online or by telephone. Consequently, we have had to introduce new verification processes, which has moved much of this activity online or over the phone.

You will appreciate we cannot go into great detail publicly on the mechanics of these systems without potentially compromising their effectiveness. However, we are taking a number of steps to combat the fraud risk. This includes measures such as asking unique biographical questions (based on information the Department already holds about an individual), uploading ID documentation, and where appropriate, seeking additional verification via the newly established Enhanced Checking Service.

How has your ability to verify the identity of a claimant, and their eligibility for benefits, been affected by the pandemic?

Since mid-March, the Department has received in excess of 3.2 million individual applications for Universal Credit. This has placed unprecedented demands on our systems, but we have shown resilience and scalability, even during peak demand.

Verification of new claimants' identities has remained at the core of the checks the Department undertakes before new claims are processed. As the vast majority of claimants submitted their claim to Universal Credit online, system 'bottlenecks' were addressed, including providing additional support to the Cabinet Office's digital 'Verify' identity service to help improve its running and reduce the waiting time experienced by new claimants. Within the less than a week we quadrupled the capacity of this system and reduce wait times to a few minutes.

We also streamlined our processes in response to the increase of new claims, ensuring that where additional verification was required, it was still conducted. For example, in April we launched the 'Don't Call Us, We'll Call You' campaign to ensure we initiated outbound contact with those claimants who needed to supply additional information.

This work, as well as the new processes outlined in my response to your first question, has allowed us to manage ID verification in a way that was commensurate with both the increased take up and the effective management and safeguarding of public finances.

What is your estimate of the number of individuals whose information has been used, without their knowledge, to submit a fraudulent Universal Credit claim in each month since February this year? What work are you doing to identify such victims?

How many of these people will have received an advance and what would the average advance value be?

The Department does not make estimates of the total number of individuals whose information may have been used to submit a fraudulent Universal Credit claim without their knowledge, or how many of these may have received an advance.

Last month, we launched a new process for claimants who allege the fraudulent making of a Universal Credit claim. Universal Credit telephony agents will take the details of any claimant contacting the Department about such issues and their cases will then be referred to a discrete team, who will call the individual back to gather the information needed to make a decision on the validity of the Universal Credit claim. We do not expect individuals to pass security questions to access this service and

claimants can get in touch with the Department by phone or via any other means of contact.

We are investigating cases of suspected ID hijack currently and our focus is on reviewing each of these cases on their own individual merits. This work will tell us how many of these are true or people alleging this to justify fraudulent activity. At this stage it is too early to say.

Where it is discovered that an individual has been the victim of fraudulent benefit claims, of which they had no knowledge, can you confirm that your Department will ensure that the victims are not worse off financially as a result?

Where it is concluded that a claimant had no involvement at all, we would not recover from the individual. In this instance, we would close the claim down and consider instead whether a separate criminal prosecution (of the third party) might be appropriate.

If someone was on legacy benefits or tax credits before being a victim of a fraudulent UC application, will they be reinstated to their former benefit or tax credits, and reimbursed for any lost payments because of the fraud?

The Department endeavours to take swift action once we become aware of such cases, but, understandably, some cases are complex and require deeper scrutiny before deciding on the next steps.

Where it is found that a legacy benefit/tax credits claimant has been the victim of a fraudulent UC application by a person who has hijacked their identity details, their legacy benefit/tax credits awards will be reinstated and full payment made for the period since their legacy claim was ended.

When did you last conduct an assessment of the Universal Credit business case assumptions?

Before the pandemic, was Universal Credit on course to make the £1.3bn per year steady state savings in fraud and error that were envisaged in the business case?

I note that the expected savings from Universal Credit, and the timings of these, may be impacted by the pandemic. When will you next update the assumptions about fraud and error savings, and the timings, that will be made through Universal Credit?

The Universal Credit Final Business Case was agreed in 2018 and with Universal Credit now rolled out to every jobcentre in the country, there is no requirement to update assumptions and investment has already been made. The Committee should be reassured that with an annual estimate of economic benefits of £8bn pa any changes such as volumes or administrative costs will have only a marginal impact on this healthy rate of return on investment. It would not represent value for money to re-run this process, and the opportunity cost for our analytical and evaluation plans would be considerable.

We remain confident that Universal Credit will deliver fraud and error savings. As Tax Credit cases are brought into Universal Credit they import more fraud and error into the DWP figures, which we expected and forecast for. However, Universal Credit with its new IT systems and structures offers much greater scope to bear down on the causes of loss and over the coming years the Committee will see new features deployed to tackle known issues in the legacy benefits and Tax Credit system. We intend to monitor fraud and error in the usual way, but will not be producing separate estimates in the context of the business case.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Thérèse', written in a cursive style.

The Rt Hon Thérèse Coffey MP
SECRETARY OF STATE FOR WORK AND PENSIONS



Work and Pensions Committee

House of Commons, London, SW1A 0AA
Tel 020 7219 8976 Email workpencom@parliament.uk

From the Chair

Rt Hon Dr Thérèse Coffey MP
Secretary of State
Department for Work and Pensions

06 July 2020

Dear Thérèse,

Thank you for your letter, dated 17 June 2020, about your Department's estimate of the amount of fraud and error in the benefits system. I am writing now to follow up on some of the points raised in my previous letter, and in the light of further reports about fraud in Universal Credit Advance Payments.

During the pandemic, the focus of the Department has, rightly, been on ensuring timely support for millions of new benefit claimants. We know that, in order to achieve this, a number of the controls and checks usually in place to confirm benefit eligibility have not been operating. DWP has acknowledged that there is likely to be an increase in fraud and error because of these changes, and that the increase will be at least partially dependent on the impact of prevention and detection measures it has put in place.

The Committee has become aware of recent reports that fraudsters are using other people's details to make fraudulent UC claims, without the person supposedly applying for the benefit even knowing that an application has been made. We know too that the NAO has previously conducted work into fraud in Universal Credit Advances, following similar media reports in 2019. The NAO found UC advances to have been subject to significant levels of fraud, with up to £221m of fraudulent advances paid out between July 2018 and December 2019.

In light of this, please can you let the Committee know the following:

1. What more can DWP do to verify the identity of new UC claimants, to ensure that they are who they say they are, and that their entitlement to the benefit is genuine?
2. How has your ability to verify the identity of a claimant, and their eligibility for benefits, been affected by the pandemic?
3. What is your estimate of the number of individuals whose information has been used, without their knowledge, to submit a fraudulent Universal Credit claim in each month since February this year? What work are you doing to identify such victims?
4. How many of these people will have received an advance and what would the average advance value be?
5. Where it is discovered that an individual has been the victim of fraudulent benefit claims, of which they had no knowledge, can you confirm that your Department will ensure that the victims are not worse off financially as a result?

In some cases, the victims of this identity fraud were previously in receipt of tax credits. As you know, once somebody in receipt of tax credits applies for UC they will often lose all entitlement to the tax credits they used to receive, even if they are not in fact eligible for UC. Similarly, some people receiving legacy benefits could end up worse off if they end up on Universal Credit.

Amber Rudd, when she was Secretary of State, told our predecessor Committee that people can revert to their former benefits where there has been a fraudulent UC application. Neil Couling, Change Director General and Senior Responsible Owner for UC, also confirmed that this was the case. With this in mind, please can you now answer the following question:

6. If someone was on legacy benefits or tax credits before being a victim of a fraudulent UC application, will they be reinstated to their former benefit or tax credits, and reimbursed for any lost payments because of the fraud?

In my last letter, I also asked whether you still expected Universal Credit to reduce government losses due to fraud and error in the benefit system, and for you to provide a timeline of these savings. Please can you now let the Committee know the following:

7. When did you last conduct an assessment of the Universal Credit business case assumptions?
8. Before the pandemic, was Universal Credit on course to make the £1.3bn per year steady state savings in fraud and error that were envisaged in the business case?
9. I note that the expected savings from Universal Credit, and the timings of these, may be impacted by the pandemic. When will you next update the assumptions about fraud and error savings, and the timings, that will be made through Universal Credit?

The Committee would be grateful for a response by 20 July.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stephen Timms'.

Rt Hon Stephen Timms MP
Chair, Work and Pensions Committee



Department
for Work &
Pensions

THE RT HON THERESE COFFEY MP
Secretary of State for Work & Pensions

Caxton House
Tothill Street
London, SW1H 9AJ

17th June 2020

Dear Stephen,

Thank you for your letter dated 3rd June 2020 about our recent fraud and error estimates and the potential impact of COVID-19 on overpayments.

My Department takes the issue of fraud and error in the benefit system extremely seriously, and continues to implement new initiatives to tackle it. The use of data plays a key role in our approach and we have brought together an experienced team of data scientists to support our security intelligence teams and our Integrated Risk and Intelligence Service (IRIS).

We continue to work across both Government and the private sector to develop our analytical capabilities. This is extending our capacity to verify what claimants tell us and will increasingly prevent fraud and error from occurring. I have responded to your questions in turn below.

1. What is your plan to reduce fraud and error in the benefit system? Please can you share any up to date strategy documents with the Committee?

Certain loss areas are common to most means tested benefits and we continue to use data-driven analysis to identify the highest risk areas. This not only means we pinpoint risks where they exist, but also ensures our counter-fraud initiatives are appropriately targeted to achieve better results.

Analysis is then used to build individual fraud and error strategies which define our approach to particular losses. We review these strategies on a regular basis and progress is reported directly to both the DWP Executive Team and to the Departmental Audit and Risk Assurance Committee. These strategies are internal documents and are not intended for wider release, not least because they include details of our approach to combating fraud, which may be compromised were they released into the public domain.

In order to optimise our use of data, we have brought together a number of intelligence teams from across the Department to create IRIS. By continuing to work with the National Crime Agency, Her Majesty's Revenue and Customs and other government departments, IRIS helps to ensure a joined up approach to tackling fraud which draws on best practice. This function will significantly increase our prevention capability through the use of new data matching rules and will continue to explore the optimum use of data by working across government and with existing third party suppliers to address the knowledge gaps where they exist.

Data matching will continue to play an important role in our plans to reduce fraud and error. We have already had success here, with Real Time Information (RTI) and our Verify Earnings and Pensions initiatives helping to reduce earnings related loss.

2. What actions will you take to bring down the levels of overpayment in Universal Credit from the current record high levels? What is causing these levels of overpayment?

We remain committed to tackling fraud and error in Universal Credit and have a number of measures in place to prevent over and under payments. I have already set out our action to grow our data sharing capabilities and this is the key to our future success. The introduction of UC, and the automatic PAYE feed ahead of payment, means we can now prevent fraud and error at the outset, which benefits claimants and the taxpayer alike. The recent fraud and error statistics confirmed our success here, with RTI earnings errors accounting for just 0.3% of UC loss.

However, we recognise that there is more to do. 2.2% of UC overpayments are attributable to self-employed and self-declared earnings and we are working with data suppliers and developing new data matches to help identify cases of fraud and error driven by individuals who fail to declare this type of income.

Housing costs have been a concern (currently 1.2% of UC fraud and error) which is why we introduced the digital Landlord Portal, which is helping us verify housing costs with social rented sector landlords. We are also trialling a 'risk rating' approach to private rented sector housing costs in order to identify potential fraud, which replaces an approach that relied on claimants submitting the necessary evidence.

Capital loss contributed 2.8% of total UC fraud and error. Former Tax Credit claimants will not have been required to report certain changes, including capital, whilst in receipt of Tax Credits. However, capital holdings may impact Universal Credit entitlement, and if unreported this will make a difference to DWP's future fraud and error levels. We continue to use data based around information on interest bearing financial products to identify undeclared capital and this allows us to cleanse thousands of cases each year. Looking ahead, we are exploring how we can work

with claimants to ensure declared capital is kept up to date and doing more in-depth work on capital loss, with a view to looking at both legislative and non-legislative options.

Couples who fail to declare that they are living together also contribute to overpayments (1.1%). Again data is key and we are working with the Government's data supplier to see how they can help us design a service which generates an 'alert' in real time, potentially allowing us to review claims where circumstances might have changed. We will of course look to work with claimants here, which is why we hope to trial a new letter-based approach, which encourages people to declare their circumstances correctly.

3. Do you still expect Universal Credit to reduce government losses due to fraud and error in the benefit system? If so, please can you provide a breakdown of the expected savings, and an indicative timeline for when savings might be realised?

Although we expected the level of fraud and error within DWP to increase, we forecast that Universal Credit would, at the same time, reduce the cost of cross-welfare fraud, error and overpayments to the taxpayer. Universal Credit is still forecast to deliver forecast savings in terms of overall loss related to fraud and error across welfare once we are in steady state.

The scope of what is considered to be potential fraud and error is wider under Universal Credit than in Tax Credits. This is because Universal Credit assesses people's entitlement monthly compared to Tax Credits, which are awarded on an annual basis. Under the Tax Credit regime, HM Revenue & Customs makes a provisional award to claimants based on the information it holds and then calculates their actual entitlement at the end of the year. Universal Credit involves a monthly assessment of claimants' circumstances. Any monthly overpayments due to changes in circumstances are adjusted earlier (saving the taxpayer money).

COVID-19 may have an impact on future UC fraud and error savings. We will need to revisit certain high risk claims made throughout the COVID-19 pandemic to ensure that we identify fraud and error that might have entered the system during this period. Cases impacted by any temporary easements to the claim process are flagged within the system and we are now considering how this cohort may affect the timeline set out in the UC business case for realising the fraud and error savings, and how to mitigate this.

4. There are some methodological changes for this year's estimate, which you say mean that comparisons can only be made with the revised 2018-19 figures. Notwithstanding these changes, do you and DWP statisticians

think it is likely that the estimated levels of overpayments and underpayments are the highest they have been at any point since 2005-06, when the methodology in place between then and last year was first introduced?

The fraud and error estimates reflect the period 2019/20 and are based on a revised methodology. As you recognise, this means it is not possible to make comparisons over time, other than with 2018/19, where figures have been restated.

5. Will you commit to a greater level of transparency about fraud incurred through UC advances, either through a regular statistical publication looking specifically at this topic, or by including UC advances in the fraud and error publication in the future?

We are not considering incorporating Universal Credit advances into our Performance Management benefit reviews. We did reference the NAO's report into UC advances (published March 2020) in our national Fraud and Error statistics publication and provided estimates.

The Department takes this matter very seriously and we have designed a number of measures to address Universal Credit Advances fraud, most notably changing the application process in September 2019, so applicants have to meet with Jobcentre staff to verify their identity before obtaining an advance. In December 2019, we built on this further by introducing additional real time verification procedures. Together, these changes helped strike the right balance between allowing swift access to support for those who need it and enhancing safeguards against fraudulent behaviour.

Taken together these measures were successful as fraudulent Advances decreased significantly during this period. In July 2019, the number of potentially fraudulent advances stood at 15,044; by December 2019, this figure had fallen to 2,219. COVID-19 will potentially affect these numbers, not least because we have had to suspend face to face interviews. We are monitoring the impact of this carefully and will make changes when supported by evidence whilst continuing to balance the needs of people in genuine need against a minority who seek to abuse the system.

6. The Committee recognises that the Department's priority in the initial response to the pandemic was, rightly, to make payments quickly to those who needed support. Please can you now let the Committee know what the expected UC fraud losses are during the pandemic, including in advance payments, and what the Department is doing to mitigate the risk of fraud as DWP adjusts to the "new normal"?

The policy and operational easements introduced in Universal Credit as a result of COVID-19 were, as you suggest, necessary to ensure we met the challenges of the unprecedented demand for our services.

Our analysts are currently assessing the impact of the easements we introduced and the cost of setting aside residual work, including fraud investigations. We have no immediate plans to publish these findings. We continue to engage with HMT and Cabinet Office colleagues, focusing on both the impacts of our response to the emergency and our recovery planning.

To mitigate the risk of increased fraud, we established an Enhanced Checking Service, comprised of 600 trained fraud investigators. This meant benefit processing staff could refer any suspicious cases for further investigation and additional verification. This service is already making in-roads to combatting any potential abuse of the system.

We also ring-fenced our Serious and Organised Crime facility from staff redeployment, ensuring the requisite resource to investigate any emerging or systemic threats and ensure any organised attacks on the benefit system were unable to grow. In the same way we continued to monitor risks and used data matching and analytical expertise to help identify fraudulent activity.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Thérèse', with a stylized flourish at the end.

The Rt Hon Thérèse Coffey MP
SECRETARY OF STATE FOR WORK AND PENSIONS



Work and Pensions Committee

House of Commons, London, SW1A 0AA

Email workpencom@parliament.uk

From the Chair

Rt Hon Dr Thérèse Coffey MP
Secretary of State
Department for Work and Pensions

03 June 2020

Dear Thérèse,

On 14 May 2020, your Department published its annual estimate of the amount of fraud and error in the benefits system.

The figures are alarming. They suggest the following:

- That overpayments to claimants, costing the Government vital resources that could be used elsewhere, have increased even beyond the record high levels recorded last year
- That underpayments to claimants, meaning that some people do not get the support that they need and are entitled to, remained at the same record high levels recorded last year
- That Universal Credit, which your Department had expected to substantially reduce fraud and error, is showing the highest level of overpayments of all benefits, with nearly £1 in every £10 spent on the benefit being an overpayment (overpayment rate of 9.4%).

In light of these figures, please can you let the Committee know the following:

1. What is your plan to reduce fraud and error in the benefit system? Please can you share any up to date strategy documents with the Committee?
2. What actions will you take to bring down the levels of overpayment in Universal Credit from the current record high levels? What is causing these levels of overpayment?
3. Do you still expect Universal Credit to reduce government losses due to fraud and error in the benefit system? If so, please can you provide a breakdown of the expected savings, and an indicative timeline for when savings might be realised?
4. There are some methodological changes for this year's estimate, which you say mean that comparisons can only be made with the revised 2018-19 figures. Notwithstanding these changes, do you and DWP statisticians think it is likely that the estimated levels of overpayments and underpayments are the highest they have been at any point since 2005-06, when the methodology in place between then and last year was first introduced?

The National Audit Office report, [Universal Credit advances fraud](#), detailed serious weaknesses in the UC advance process, and estimates that up to £221m of fraudulent

UC advance payments may have been made between July 2018 and December 2019. UC advance fraud is not included in the official fraud and error estimate, with the stated reason being that a “UC advance is not a benefit payment”. You will understand that, to the outside observer, that explanation is not particularly persuasive.

There is a limited amount of information about UC advance fraud in the methodology document published alongside the fraud and error estimate. This explains that the estimate “potentially omits between £142 million and £213 million of money relating to fraudulently claimed advances”.

On 21 May 2020, the BBC reported contact from benefit officials suggesting as much as £1.5bn may have been lost in fraudulent claims for Universal Credit in recent weeks, because of the decision to “relax” some processes to ensure most claims were paid quickly.

On these topics, please can you let the Committee know the following:

5. Will you commit to a greater level of transparency about fraud incurred through UC advances, either through a regular statistical publication looking specifically at this topic, or by including UC advances in the fraud and error publication in the future?
6. The Committee recognises that the Department’s priority in the initial response to the pandemic was, rightly, to make payments quickly to those who needed support. Please can you now let the Committee know what the expected UC fraud losses are during the pandemic, including in advance payments, and what the Department is doing to mitigate the risk of fraud as DWP adjusts to the “new normal”?

The Committee would be grateful for a response by 17 June.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stephen Timms', with a stylized flourish at the end.

Rt Hon Stephen Timms MP
Chair, Work and Pensions Committee