



National Audit Office

The UK's independent public spending watchdog

Stephen Timms MP
Chair Work and Pensions Select Committee
House of Commons
London, SW1A 0AA

Date 3 September 2020

Dear Stephen

NET RECOVERY RATE OF FRAUD AND ERROR ON UNIVERSAL CREDIT

I promised at the hearing of 2 September to write to you about the net recovery rate of fraud and error on Universal Credit and whether all overpayments are lost to the taxpayer.

The Department for Work and Pensions (the Department) publishes statistics on both the estimated level of overpayments that it pays out and the level of overpayments that it recovers in any year.¹ In 2019-20, the Department estimates that it overpaid £1,730 million and recovered £70 million of overpayments. This meant that it recorded a net loss to the taxpayer in 2019-20 of £1,660 million from overpayments on Universal Credit.

The £1,660 million probably overstates the amount of the £1,730 million that will be lost to the taxpayer. This is because most of the recoveries in 2019-20 relate to overpayments made in previous years, when less Universal Credit was overpaid out because fewer people were on the benefit. Some of the £1,730 million overpayments will be recovered in future years.

A more useful picture of the level of recovery can be seen by looking across all benefits. In 2019-20 the Department's total estimate of the monetary value of overpayments across all benefits was £4,600 million. In the same year it recovered £1,000 million of claimant debts relating to historical overpayments. The Department achieves a somewhat greater recovery rate for other benefits than it has so far with Universal Credit.

Nonetheless it is fair to say that it is likely that most of the £1,730 million will be lost to the taxpayer. As I explained in the hearing, the main difference between the estimated level of overpayments and the rate of recovery is that most overpayments go undetected and are never recovered.

The Department uses the net loss as a headline indicator in its Annual Report and Accounts. The net loss rose from 1.5% of all benefit expenditure in 2018-19 to 1.9% of all benefit expenditure in 2019-20. The Comptroller and Auditor General explains in his report as part of his certification of the Departments 2019-20 Accounts why we do not find this a useful measure and tend to always quote the gross figures:

¹ The relevant statistics are in table 13 of the publication on the government website that can be found here: <https://www.gov.uk/government/statistics/fraud-and-error-in-the-benefit-system-financial-year-2019-to-2020-estimates>

*"I base my opinion and recommendations on the gross levels of overpayments and underpayments. The Department reports 'net loss' as its headline indicator of fraud and error (see page 85 of the Department's Annual Report and Accounts). This measure looks at estimated overpayments made in year, less actual recoveries in year, regardless of whether the recovery related to an overpayment made during that year or to one made in previous years. Overpayments can take many years to recover, at additional administrative cost. The net loss target as currently constructed does not indicate the inaccuracy of benefit payments made in year because it combines past and current performance in a single measure. The net loss target is no substitute for annual gross targets by benefit, against which the Department can assess in year progress."*²

The recovery of overpayments is generally less cost effective than the prevention of fraud and error. The NAO has recommended to the Department that it publish annual targets by benefit of the gross levels of fraud and error that Parliament and others can use to hold it to account. These targets should set out the intended impact of its counter fraud and error strategies and be used to assess the extent to which these are working.

Yours sincerely



Joshua Reddaway
Director, Work and Pensions VFM

² See the C&AG's report on page 198 of the Department's 2019-20 Annual Report and Accounts:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/896268/dwp-annual-report-and-accounts-2019-2020.pdf