Twenty-sixth Report of Session 2022-23

Department for Work and Pensions

The Department for Work and Pensions' Accounts 2021-22 – Fraud and error in the benefits system

Introduction from the Committee

The Department for Work and Pensions (the Department) is responsible for the delivery of work, welfare, pensions, and child maintenance policy. It administers the State Pension and a range of working age, disability and ill health benefits to around 20 million claimants and customers. In 2021–22, the Department spent £104.1 billion on State Pension and £113.1 billion on all other benefit payments.

Benefit payments are susceptible to both deliberate fraud by organised crime groups and opportunistic individuals, and unintended error by claimants and the Department. The Comptroller & Auditor General (C&AG) qualified the Department's 2021–22 accounts for fraud and error in all benefits except State Pension, which has relatively simple conditions of entitlement and a lower level of fraud and error. While the C&AG has qualified the Department's accounts every year since 1988–89 due to material levels of fraud and error in benefit expenditure, the 2021–22 accounts show the highest level of fraud and error on record. The estimated overpayment rate across all benefits excluding State Pension was 7.6% (£8.5 billion) and the estimated underpayment rate was 1.9% (£2.1 billion). The Department often refers to the level of overpayment due to fraud and error across all benefits, including State Pension, which was 4.0% in 2021-22.

The number of benefit cases that the Department administers increased significantly as a result of the COVID-19 pandemic. The number of people on Universal Credit increased from 2.9 million in February 2020 to 5.6 million in August 2020 and remained at 5.6 million in June 2022. The Department has reinstated most of the controls to prevent fraud and error that were paused at the start of the pandemic. It has also significantly reduced the backlogs in counter-fraud activity that built up because of the surge of new claimants. However, the level of fraud and error in benefit expenditure remains at a record high compared with before the pandemic.

Based on a report by the National Audit Office, the Committee took evidence on Wednesday 20 July 2022 from the Department for Work and Pensions. The Committee published its report on 9 November 2022. This is the government's response to the Committee's report.

Relevant reports

- DWP report: DWP Annual Report & Accounts 2021-22 – Session 2021-22 (HC 193)
- NAO report: Report on Accounts
- PAC report: The Department for Work and Pensions' Accounts 2021-22 – Fraud and error in the benefits system – Session 2022-23 (HC 44)
- PAC report: The Department for Work and Pensions' Accounts 2020–21 – Fraud and error in the benefits system - Session 2021-22 (HC633)
- Treasury Minutes Progress Report: December 2022 (CP 765)

Government response to the Committee

1. PAC conclusion: Benefit fraud and error remains at a record high and is yet to show any sign of falling back to pre-pandemic levels.

1a. PAC recommendation: The Department should, by the publication of its next Annual Report & Accounts:

- ***Set out its forecasts of the future levels of fraud and error in benefits, including its assessment of the factors driving these trends.***

1.1 The government disagrees with the Committee's recommendation**.**

1.2 The Department for Work and Pensions (the department) notes the Committee's recommendation to set out departmental forecasts for fraud and error. As previously set out, the department's Annual Report and Accounts (ARA) will set out the savings the department is achieving on fraud and error. The Office for Budget Responsibility (OBR) is the government's independent forecaster, and the department is working with OBR to review its baseline assumptions, and to ensure fraud and error is more visible within the overall forecast, when revised at the spring statement.

1b. PAC recommendation: The Department should, by the publication of its next Annual Report & Accounts:

- ***Set a target for fraud and error, working with the NAO to develop commentary alongside it to explain the context in the absence of a stable baseline.***

1.3 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2023

1.4 The department agrees with the Committee's recommendation, which has been given previously, to set a target and work with the National Audit Office (NAO) to develop commentary. The department has committed to the target implementation date and will keep the Committee up to date on the progress of this via the existing TM25 recommendation.

2. PAC conclusion: The Department risks allowing high levels of fraud and claimants disengaging with its compliance processes to become normal.

2. PAC recommendation: Before the end of January 2023, we expect the Department to write to us with a clear plan of how it intends to increase the number of claimants responding to its fraud and error sampling exercises. In doing so the Department should consider reviewing the tone and content of its communications with claimants to both encourage compliance and catch fraudsters

2.1 The government disagrees with the Committee's recommendation**.**

2.2 There is a well-established and accepted methodology for dealing with customers who do not co-operate with the benefit review process and should not be receiving benefit. These customer's claims are classed as customer fraud, for fraud and error measurement and reporting purposes. The department continues to gain further understanding of these customers, their circumstances, their behaviours and how they came to be in receipt of benefits in the first place. The department does not expect to find a different outcome than customer fraud but wants to understand better how it might change benefit policy, process, or service design to prevent this type of customer fraud in the future.

2.3 With regards to communications, the department continually reviews all of its customer letters to ensure they are consistent, understandable, and clear. This work is led by communication professionals. Customer letters relating to the sampling exercise are subject to the same approach and seek to strike the right balance between encouraging compliance with the process but also the ability to deal with customer fraud if it is uncovered.

3. PAC conclusion: The success of the Department's strategy to bring down fraud and error is dependent on highly uncertain assumptions.

3. PAC recommendation: As part of its Treasury Minute response, the Department should set out in detail how its counter-fraud plan would be impacted if it is not able to get the staff, powers or HMRC data that it needs, and what its contingency plans would be in these circumstances.

3.1 The government disagrees with the Committee's recommendation.

3.2 In May 2022, the government published its plan to reduce fraud and error, focussing on three areas:

- DWP frontline counter-fraud professionals and data analytics investment,
- creating new legal powers to investigate and punish potential fraudsters and
- bringing together the public and private sectors to keep one step ahead.

3.3 The department received £613 million investment through Spending Review 2021 and Spring Statement 2022 to prevent an estimated £2 billion being lost to fraud and error by 2024-25. Autumn Statement 2022 funded an additional £280 million to deliver £396 million Annual Managed Expenditure (AME) savings by 2024-25. This will enable reviews of Universal Credit claims and cracking down on claimants and criminals seeking to abuse the system. The OBR forecast savings of about £9 billion by 2027-28 if this increased investment continues into the next Spending Review period.

3.4 The government set out plans to legislate for additional powers when Parliamentary time allows and is expected to have additional impact on the OBR forecast.

3.5 The department is seeking opportunities to clamp down on fraud across government. HM Revenue and Customs (HMRC) have shared information with the department about the Self-Employed Income Support Scheme, and together will continue to explore ways to tackle fraud across government.

3.6 The department's ARA will update on progress, new opportunities, and if need be, any contingency action being taken. Therefore, the department does not feel it is necessary or productive to set out detailed contingency plans for various scenarios at this point, which could distract from focusing on the delivery of its existing plan.

4. PAC conclusion: The Department has not set out in sufficient detail how it will assess whether it is achieving what it wants from its investment in fraud prevention measures.

4. PAC recommendation: We again recommend that the Department work with the NAO to ensure that by the time of its 2022–23 Annual Report and Accounts it has in place an agreed framework to report on the impact and cost-effectiveness of its counter-fraud activities.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: 2022-23 Annual Report and Accounts

4.2 The department published an estimate for the first time in the 2021-22 Annual Report and Accounts (ARA) demonstrating savings of £2 billion achieved in 2021-22 through the department's counter fraud function. The methodology that was developed to produce this estimate was the culmination of a substantial amount of work, including receiving assurance from the Government Internal Audit Agency, and working with internal stakeholders, to improve the governance around the estimate and critically assess the methodology.

4.3 The department shared the methodology as part of the ARA and acknowledges that the NAO has yet to endorse this framework but is committed to working together ahead of the 2022-23 ARA to ensure this agreement is in place.

5. PAC conclusion: The Department's lack of transparency over its use of data analytics risks eroding public trust in the benefit system.

5a. PAC recommendation: The Department should report annually to Parliament on its assessment of the impact of data analytics on protected groups and vulnerable claimants.

5.1 The government agrees with the Committee's recommendation.

Target implementation date: November 2023

5.2 The department is committed to ensuring that all the right assurances and governance is in place for its data and analytics functions, in relation to its fraud and error response. This is necessary to protect the most vulnerable in society and understand the impact on protected groups. The department is considering the best method on reporting this information to Parliament annually.

5b. PAC recommendation: The Department should also consider what role the Social Security Advisory Committee can play in supporting public trust over the use of data analytics in the welfare system.

5.3 The government disagrees with the Committee's recommendation.

5.4 The department has engaged with the Social Security Advisory Committee whose primary purpose is to scrutinise proposed regulations that underpin the social welfare system on behalf of the Secretary of State for Work and Pensions and Parliament. The suggested recommendation does not fall within the remit of the Social Security Advisory Committee.

6. PAC conclusion: The Department's efforts to correct the systemic underpayment of State Pension are too slow to meaningfully put things right.

6a. PAC recommendation: As part of its Treasury Minute response, the Department should set out a credible plan to deliver the exercise to correct State Pension underpayments on schedule.

6.1 The government agrees with the Committee's recommendation.

Recommendation implemented

6.2 The department agrees with the recommendation, but disagrees with the overall conclusion, given its previous detailed updates on the State Pensions Legal Entitlement and Administrative Practices exercise (the LEAP exercise).

6.3 The department's 2020-21 and 2021-22 ARAs contain details on the scope of the exercise, progress to date and plans to address outstanding work. The department published management information on the exercise in October 2021, March 2022 and November 2022, all around the time of fiscal events.

6.4 The November 2022 update shows a significant increase in pace of the exercise. In the seven months to 31 October 2022, the department reviewed more cases than in the preceding 15 months.

6.5 Additional resources were allocated to the exercise throughout 2022. By 31 March 2023, the department expects to increase the number of full-time equivalent staff working on the exercise to approximately 1300. Consequently, the pace of the exercise is expected to further increase.

6.6 As per the 2021-22 ARA, the aim is to complete the exercise by the end of 2023 for Category BL cases - people who are married or in a civil partnership who reached State Pension age before 6 April 2016 and may be entitled to an uplift based on their partner's National Insurance contributions, and Category D cases – those aged over 80 and get some basic State Pension, but less than the £85.00 in 2022-23, and satisfy certain residency conditions. For missed conversion cases, the exercise could run through to late 2024.

6.7 The department is continually looking at its delivery plans and assessing risks to delivery as they arise. The department will continue to be transparent about the size, scope and progress of the exercise using the regular reporting routes set out above.

6b. PAC recommendation: The department should explain how it will update its communications to reassure pensioners that they will be meaningfully compensated.

6.8 The government agrees with the Committee's recommendation.

Recommendation implemented

6.9 The department already provides a range of awareness materials to assist those who may fall into the cohorts affected by the State Pension LEAP exercise.

6.10 There is information on Gov.UK about deriving (Category BL) State Pension, inheriting State Pension through spouse or civil partner and Category D (over age 80) State Pension. In 2021, the Category BL and inheritance content was revised, making it easier to find, and to emphasise further that some individuals must make a claim and how they can do this.

6.11 The department requires individuals to report certain changes of circumstance to ensure that they receive the correct amount of State Pension. This applies to people who have become divorced or whose civil partnership is dissolved. There is information about this on Gov.uk, and importantly the department also includes information about this in the leaflet that supports annual uprating letters that are sent out each year.

6.12 The department has now also provided a more direct route for those enquiring about underpaid State Pension in respect of a deceased customer. Guidance on this went live on Gov.UK on 8 July 2022 and has already received 24,593 enquiries (November 2022). In line with our prioritisation of schedule, these enquiries will be reviewed once all cases of those who are still alive have been actioned.

6.13 The department has committed to considering the feasibility of doing more to understand the effectiveness of our communications on this issue.

6c. PAC recommendation: The department should as part of its Treasury Minute response, work with HMRC to fully evaluate the extent of the HRP underpayment as soon as possible and provide a timetable of when it expects each phase of this process will be completed.

6.14 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2023

6.15 State Pension payments are calculated and administered by the department, based on the National Insurance records maintained by HMRC.

6.16 Activity has been underway in HMRC closely supported by this department, to understand more about the scale, potential causes, and options to correct historical errors relating to Home Responsibilities Protection (HRP). Investigation activity is complex, involving matching Child Benefit claims to National Insurance records to identify customers who may be impacted.

6.17 Estimates of the potential numbers of people affected and associated costs are still being finalised and are not yet available.

6.18 HMRC and the department are planning on the basis that investigation work will continue for several months, allowing the impact on State Pension payments to be quantified and for the next steps for any required corrective activity to be shared during the first half of 2023.

6d. PAC recommendation: By the publication of its next Annual Report & Accounts, set out a plan and timetable for introducing a measure to report the total value of arrears payments that arise due to underpayments, and how it will review individual arrears payments to assess whether they are indicative of a systemic underpayment issue.

6.19 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2023

6.20 The department has already published an estimate of the arrears due in relation to the State Pension Underpayment exercise in each of its last two ARAs for 2020-21 and 2021-22. The department is required to report material values of liabilities in accordance with financial and accounting standards where a reliable estimate can be produced. It is the department's intention to continue to fulfil this obligation for the duration of the State Pension LEAP exercise, and for any other corrective exercises which are of material value according to the financial and accounting standards.

6.21 As part of its fraud and error measurement exercises an estimate of the level of underpayments in each of the measured benefits is produced each year. State Pension is now included amongst those measured benefits.

6.22 The department is already considering, as part of work with the NAO, how it can introduce a mechanism for utilising data available to it to identify potential errors within the State Pension system, assess the associated risk and take appropriate corrective action. The result of this work should be available by Summer 2023.