Twenty-Sixth Report of Session 2019-21

Department for Work and Pensions

Department for Work and Pensions Accounts 2019-20

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 serves over 20 million claimants and customers. In 2019–20, the Department spent £191.8 billion on benefit payments. Benefit payments are susceptible to both deliberate fraud by individuals, and unintended error by claimants and the Department. The Comptroller & Auditor General has qualified the Department's accounts every year since 1988–89 due to material levels of fraud and error in benefit expenditure. The 2019–20 accounts were qualified for fraud and error in all benefits except State Pension, because State Pension, having relatively simple conditions of entitlement, has very low fraud and error. The overpayment rate was 4.8% (£4.5 billion) and the underpayment rate was 2% (£1.9 billion) across all the other benefits.

As a consequence of the COVID-19 pandemic, the Department's benefit caseload increased significantly, for example, the number of people on Universal Credit increased from 2.9 million in February 2020 to 5.6 million in August 2020. It expects that this increase in caseload, alongside the fraud and error impact of relaxing some of its controls in response to the COVID-19 pandemic, will lead to a further increase in losses to the taxpayer from benefit fraud and error in 2020–21.

Based on the Department for Work and Pensions 2019-20 accounts, and the National Audit Office's audit certificate and report contained within them, the Committee took evidence on Thursday 24 September 2020 from the Department for Work and Pensions. The Committee published its report on 18 November 2020. This is the Government response to the Committee's report.

Relevant Reports

- DWP report: *DWP Annual Report and Accounts 2019-20* (HC 401)
- PAC report: *DWP Accounts 2019-20* – Session 2019-21 (HC 681)

Government responses to the Committee

1: PAC conclusion: *In response to the COVID-19 pandemic, the Department successfully processed millions of new benefit claims and will need to be prepared for probable further increases in unemployment.*

1: PAC recommendation: *The Department should ensure that it learns from its experience and successes of spring 2020 to be ready for future challenges.*

1.1 The government agrees with the Committee's recommendation.

Recommendation implemented

1.2 The Department for Work and Pensions (the department) has demonstrated how it can respond flexibly at short notice and will draw on the learning from this experience in the event of any further surge in benefit claims or events of this type.

1.3 The department's response to the pandemic was swift and successful. Approximately 10,000 staff were reassigned, with new claims prioritised, all in short order. In addition, new staff were recruited, and estate expanded. All this strengthened capability and left the department better placed to address any second surge.

1.4 The department has implemented a three-wave plan covering the period to the end of 2020-21. The plan has served as a framework for guiding the response to COVID-19 pandemic and resolving ongoing supply and demand challenges. The department is currently in wave three which focusses upon increasing the department's labour market offer through increasing work coach capacity, estates capacity and external provision.

1.5 In the event of a second surge, the department would look to utilise the type of re-deployment options that worked so well in the early months of the pandemic. This could include increasing the size of the Virtual Service Centre which was developed as a response to COVID-19 in order to increase service delivery by way of staff redeployment, via internal staffing moves and outsourcing support, and increasing staffing on priority call lines.

1.6 The department would also draw on its analysis of the way different COVID-19 related relaxations of standard processes impacted fraud and error. Utilising this knowledge will help the department strike a balance between identity verification and claim clearance, should volumes dramatically increase.

1.7 The department would develop a communication campaign as part of this approach, drawing on previous lessons learned. Targeted communications would encourage claimants to verify their identity online, via 'Verify' and 'Confirm Your ID', to protect the Universal Credit Gateway. For anyone unable to use online channels, the department would continue to use enhanced biographical questions to improve the accuracy of identity verification over the phone, supplemented by specialist intervention where necessary.

2: PAC Conclusion: ***Even before COVID-19, fraud and error overpayments were at their highest ever rates, with around £1 in £10 of Universal Credit paid incorrectly.***

2: PAC recommendation: ***The Department needs to show sustained progress in reducing fraud and error. It should set annual targets, by risk and benefit, against which its progress can be assessed, based on its expectation of the intended impact of its counter fraud and error initiatives over time. These should be set out and reported against in its Annual Report and Accounts for 2020–21***

For Universal Credit, the Department should set out its plan for year-on-year reductions in fraud and error, assessing performance against short-term, achievable targets.

2.1 The government agrees with the Committee's recommendation.

Target implementation date: July 2021

2.2 The department had provisionally agreed to set an overall target for 2020-21, based on detailed fraud and error forecasts along with Universal Credit business case assumptions. The confirmation of this target was suspended with the onset of COVID-19.

2.3 The department is currently undertaking detailed sampling work in order to provide an estimate of the level of fraud and error in 2020-21. The focus will be primarily on reviewing Universal Credit as a priority, given the increase in the caseload and given the rates of fraud and error for Universal Credit.

2.4 The department anticipates that the COVID-19 pandemic will have impacted fraud and error levels, and this detailed analysis is needed in order to baseline the current position. The department is committed to publishing an annual target post COVID-19 pandemic, and to using the Fraud and Error Framework to drive fraud and error down to the lowest feasible level.

2.5 The department will publish its Fraud and Error results as part of its annual Statistical release. Following that, the department should be in a position to publish an annual target for 2021-22. The department will consider the viability of individual/lower level targets as part of this approach.

3: PAC conclusion: ***COVID-19 will lead to further increases in fraud and error. The Department has an opportunity to learn from the impacts of its control easements.***

3: PAC recommendation*: The Department should report both the total level of fraud and error in the benefit system and the impact of its easement of controls on fraud and error, accompanied by both narrative and evidence, in its Annual Report and Accounts for 2020–21. This impact should be clearly distinguished from other fraud and error impacts of COVID-19 e.g. due to the increase in caseload.*

The Department should use information obtained from the process of easing and restoring controls to assess the cost-effectiveness of controls.

3.1 The government agrees with the Committee's recommendation.

Target implementation date: July 2021

3.2 The department accepts that its response to the COVID-19 pandemic has presented an opportunity to evaluate the controls it has in place and assess the impact of those controls in terms of fraud and error prevention.

3.3 During the COVID-19 pandemic, the department has seen a massive increase in demand and paid benefit to an additional three million claimants. Restrictions meant that the department could not routinely see people face to face and carry out its normal checks during this time.

3.4 The department introduced easements (changes to its processes) to ensure that it paid people who needed support during this period. This meant introducing Trust and Protect principles around key areas of verification; namely identity, eligibility and accuracy elements. This meant placing more reliance on claimants' declarations. However, the department quickly introduced mitigations to strengthen the new process and ensure that sufficient and proportionate checks were in place. Initial forecasts indicate that this significantly reduced the department's exposure to fraud and error.

3.5 The department is working on separating out the potential impact of the COVID-19 pandemic and potential losses from easements, along with savings from subsequent agreed changes to easements, mitigations and retrospective action. These numbers will be quite distinct from existing fraud and error levels.

3.6 The normal fraud and error sampling exercise (and publication) will set out the levels of fraud and error in Universal Credit. However, the department will in addition set out in the Annual Report and Accounts the impact the pandemic has had on Universal Credit losses.

4: PAC conclusion: *The Department cannot demonstrate that it is doing everything that is cost-effective to tackle fraud and error.*

4: PAC recommendation: *The Department needs to be able to monitor and report on the impact and cost effectiveness of each of its fraud and error initiatives and in particular on the impact of its investment in new technology.*

The Department should monitor and report any discrimination or bias caused by using artificial intelligence and machine learning on different claimant groups.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: July 2021

4.2 The department is able to track the effectiveness of new technologies. The department is also conscious of the need to address any potential for bias in its approach to fraud and error and is taking steps to do so.

4.3 There are benefit realisation plans in place to monitor the impact of new digital technologies such as those being delivered through initiatives such as the Counter Fraud and Error Management System, Verify Earnings and Pensions, Transaction Risking and the Data Services Platform. These projects now form part of the new Fraud, Error and Debt Portfolio, which will track initiatives and potential savings between now and 2023-24.

4.4 The department's Monetary Value of Fraud and Error estimates are published annually. Alongside that, the department continually monitors a huge range of data on fraud and error detected through both interventions and customer reporting. The department also tracks its results from internal accuracy checks. The Integrated Risk and Intelligence Team now acts as a central unit for all this data and provides a single view of risk for the whole department. Collectively, this approach helps gauge the strength of particular initiatives and identifies remaining gaps.

4.5 The department has a draft Data Science Ethics Framework for machine learning that ensures it considers bias and discrimination in the design of predicative models. The Integrated Risk and Intelligence Service is working with legal experts to ensure that the ethical and legal position of all of its products have been properly considered ahead of any wider automation.

4..6 The department will provide an update on how it is using data to tackle loss as part of the annual report and accounts fraud and error narrative.

5: PAC conclusion: ***The Department has made slower progress on some causes of fraud and error; this is sometimes due to legislative and regulatory restrictions.***

5: PAC recommendation: ***The Department should review the regulatory regime around its fraud and error activities and communicate to parliament where it believes additional powers or other changes to legislation would improve controls for specific fraud and error risks.***

5.1 The government agrees with the Committee's recommendation.

Target implementation date: July 2021

5.2 Latest figures for 2019-20 show that undeclared capital accounted for 22%, equating to £881 million, of all fraud and error loss across Department for Work and Pensions benefits. Despite the department's best efforts this money is difficult and costly to identify if it is not declared.

5.3 The government Counter Fraud Function has explored options for new legislative powers to increase the effectiveness of counter fraud activity. The department has been closely involved in and supportive of this work. One of the main drivers of this cross-government approach is to consider the case for levelling up fraud capability and legislative powers across departments.

5.4 Levelling up powers, by raising the department's investigatory powers to the same degree as other departments, and thereby enabling access to bulk tax information held by banks and financial institutions, would support investigations and/or compliance activity relating to capital fraud.

5.5 The department is at the same time developing non-legislative measures to improve counter fraud activity, including finding new ways to work with the banks and possible open banking opportunities, but it is this legislative solution that would potentially have the greatest effect on reducing capital loss.

5.6 The lockdown period has in addition shown that the department's investigatory powers and penalties processes are reliant on face to face activity. Removing restrictions would help the department to deploy its penalties and investigative powers in a modern and digitalised way.

5.7 In each instance, the department would bring any proposed legislative change to Parliament for scrutiny in the usual way.

6: PAC conclusion: ***As at 31 March 2020, the Department was owed £5.3 billion from benefit overpayments, benefit advances and Tax Credits debt. This number continues to increase rapidly.***

6: PAC recommendation: ***The Department should set out clearly in its Annual Report and Accounts, starting 2020–21: the methods open to it to recover debt; the efficacy of each of these methods on recovering different types of debt; and its expectation of its recovery of different types of debt which are accumulating due to overpayments and be clear about the resources required to deliver on its targets.***

6.1 The government agrees with the Committee's recommendation.

Target implementation date: July 2021

6.2 The department can recover debt in various ways, including directly from benefits, from earnings via a Direct Earnings Attachments, or ultimately, from a debtor's estate.

6.3 Overall deductions policy is complex. Recovery is increasingly made via Universal Credit payments. The purpose of the overall deductions policy in Universal Credit is to both safeguard the welfare of claimants who have incurred debt and to provide a cost effective and efficient mechanism to recover outstanding overpayments.

6.4 Regulations protect claimants from excessive deductions. From October 2019, the overall maximum level of deductions that can be taken from Universal Credit was reduced from 40% to 30% of the Standard Allowance. This will decrease to 25% with effect from October 2021. Equally, through the priority order for deductions, the department seeks to protect vulnerable claimants by providing a repayment method for arrears of essential services. This means that the debt rate can only be calculated once other deductions have been taken into account.

6.5 The department is improving operational efficiency via, for example, Repay My Debt, which will enable customers to pay their debt online and increased automation of processes. The department is also developing data analytics to facilitate a more proactive approach to managing financial hardship.

6.6 The department will look to provide additional information in its annual report and accounts to show the different recovery options, the sums attributable to each method and outstanding debt stock.

7: PAC conclusion: ***The people that are being overpaid and underpaid are amongst those least likely in society to be able to pay the money back or absorb an underpayment.***

7: PAC recommendation: ***The Department should do more to understand the impact that both overpayments and underpayments have on claimants and ensure that vulnerable claimants are treated with care when dealing with error on the claim.***

As the Department investigates the impact of its COVID-19 response, it should consider systemic causes of underpayment and act quickly to assess and address these issues. We would like to hear from the department how it intends to do this.

7.1 The government agrees with the Committee's recommendation.

Target implementation date: Spring 2021

7.2 The department agrees that it needs to recover money efficiently without disadvantaging customers. As part of the response to the COVID-19 pandemic, debt recovery was paused for three months from April 2020. Recovery recommenced from July 2020 but the department continues to apply a flexible approach.

7.3 All customers or their representatives can contact Debt Management if they are experiencing financial hardship in order to request a reduction in their rate of repayment or a temporary suspension of repayment, depending on their financial circumstances. The department's analysts are currently looking at how the department can use financial data to help identify vulnerable customers at source so that deductions can be tailored, and collection strategies refined.

7.4 The department remains committed to delivering Breathing Space. This Treasury-led policy, due to take effect in 2021, will allow people with problem debt to obtain protection from creditor action and time to access debt advice, enabling them to arrange a suitable solution to their debts.

7.5 The Cabinet Office recently conducted a public call for evidence on the issue of 'Fairness in debt management'. The department will be working with government colleagues in order to consider the key findings.

7.6 A key priority for our work is to get benefit payments correct at the outset. Part of this is about helping claimants to report their circumstances correctly. The increased use of data will help the department check entitlement and correct any over or underpayment at the earliest opportunity. Verify Earnings and Pensions alerts are very much part of this approach.

7.7 At a strategic level, the department will continue to analyse the root causes of fraud and error so that future initiatives can target the causes of underpayments. Where underpayments are identified as a result of official error, the department will pay arrears in full at the earliest opportunity.

7.8 The department will write to the Committee with an update on its progress in Spring 2021.