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Committee of Public Accounts

The Department for Work and Pensions' Accounts 2020–21 – Fraud and error in the benefits system

Twenty-Fifth Report of Session 2021–22

Report, together with formal minutes relating to the report

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The level of fraud and error in the benefit system almost doubled during the pandemic from what was already the highest rate since records began. Overpayments of benefits now stand at an eye watering £8.3 billion, 7.5% of the Department for Work and Pensions' overall benefit expenditure of £111.4 billion (excluding State Pension). The Department's accounts have been qualified every year since 1988–89 due to levels of overpayments and underpayments in benefits expenditure. Fraud and error had been rising year-on-year even before COVID-19, but the pandemic has opened-up weaknesses in the Department's defences and brought new opportunities for fraudsters—at huge cost to the taxpayer.

At the start of the pandemic, the Department took steps to support people affected by restrictions and the unprecedented surge in people claiming benefits, with Universal Credit claims doubling between March 2020 and March 2021. However, to manage the number of claims, ensure speed of payment, and put in place safety measures for its staff and claimants, the Department introduced 'easements' whereby it relaxed or adapted many of the controls it normally had in place to reduce the likelihood of fraud and error. Both organised criminals and dishonest opportunistic individuals have used this opening to steal from the taxpayer. The Department warned us in September 2020 that responding to the spike in demand for benefits during the pandemic would increase fraud and error, but the amount of taxpayers' money being lost is simply unacceptable.

We are pleased to hear that the Department is investing in efforts to reduce fraud and error, including improving the way it uses data and intelligence to tackle the causes of fraud and error, and that it has seen some key successes from early initiatives. However, we remain sceptical about whether its approach will result in a real and sustained reduction in the levels of fraud and error, particularly as the Department states it will be unable to demonstrate a reduction in fraud and error in 2021–22. We expect to see more rapid results from closing the door the Department was forced to leave ajar during the pandemic.

Introduction

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 2020–21, the Department spent £212.2 billion on benefits (£111.4 billion excluding State Pension). Benefit payments are susceptible to both deliberate fraud by organised crime groups and opportunistic individuals, and unintended error by claimants and the Department. Both claimants and the Department can also make mistakes, which leads to payments made in error. The Comptroller & Auditor General (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 C&AG qualified the Department's 2020–21 accounts for fraud and error in all benefits except State Pension. The Department overpaid £8.3 billion (7.5% of its benefit expenditure excluding State Pension) and underpaid £2.2 billion (2% of its benefit expenditure excluding State Pension) in 2020–21. The Department refers to this as a level of fraud and error of 3.9% across all its benefit expenditure, including State Pension.

The number of benefits cases that the Department needed to administer increased significantly as a result of the COVID-19 pandemic. The number of people on Universal Credit rose from 3 million in March 2020 to almost 6 million by March 2021. It managed this increase in caseload at the start of the pandemic in part by pausing some of the controls used to prevent fraud and error occurring. Since June 2020, the Department has started to adapt or reintroduce those controls.

Conclusions and recommendations:

1. **The scale of fraud and error in the benefit system has almost doubled during the pandemic from what was already the highest rate since records began.** The Department spent £111.4 billion on benefits other than the State Pension in 2020–21 and estimates that it overpaid £8.3 billion (7.5%) and underpaid £2.2 billion (2%). This is the highest level of fraud and error since records began in 2005. It is also the highest ever rise in fraud and error, following last year's (2019–20) record high when the Department overpaid £4.6 billion of benefits (4.8 % of 2019–20 benefit expenditure excluding State Pension). The Department is investing in 3,000 new staff to help combat fraud and error but has not yet explained what it can achieve with this additional resource or new approaches to tackle fraud and error. We previously recommended that the Department should set annual targets by risk and benefit to allow it to demonstrate its progress in tackling fraud and error. Despite committing to do so, the Department has deferred setting a target for a lower rate of fraud and error until after the Spending Review.

   Recommendation: ***We again recommend that the Department takes action to achieve a sustained reduction in fraud and error across all benefits. Alongside its Treasury Minute response, the Department must set clear targets for reducing fraud and error, by benefit and risk area, against which progress can be measured, and base these on its planned counter-fraud activities and investments.***

2. **The Department's failure to recover overpayments means billions of taxpayers' money is almost certainly lost.** The Department only attempts to recover a small part of the estimated overpayments of benefits. Over the last 5 years around 10% of benefit overpayments have been detected and referred for collection. Some £16.1 billion of overpayments go undetected, unrecovered, and lost to the taxpayer. Preventing loss and recovering overpayments at this scale could reduce the post pandemic burden on taxpayers and have a significant impact on the Government's ability to address other social and economic issues.

   Recommendation: ***The Department should, as part of its Treasury Minute response, set out what action it is taking to recover the money it has paid out because of fraud or error, and set annual targets for recovering taxpayers' money.***

3. **We are concerned by the Department's assertion that it will be unable to demonstrate a reduction in fraud and error in 2021–22.** The Department asserts that the level of fraud and error in its annual official statistics will remain at around 3.9% of all its benefit expenditure and not fall significantly when it reports its next estimate in May 2022. It attributes this in part to the timing of when it conducts its sampling exercise. But the Department has adapted or reintroduced many of the controls it relaxed at the start of the pandemic in an attempt to prevent fraud and error. It has also checked and corrected 927,000 of the new claims for Universal Credit where fraud or error was potentially identified. While the Department claims that it is making savings across the benefit system, it is unable to explain how these will reduce the amount of fraud and error in its expenditure.

Recommendation: ***The Department needs to demonstrate that its actions are reducing fraud and error. Working with the National Audit Office, it should ensure that by the time of its 2021–22 Annual Report and Accounts it has in place a framework for reporting which allows:***

- ***timely reporting of progress, in addition to the annual statistical estimate, to support more responsive action to fraud and error trends;***
- ***a consistent basis for reporting how much money has been lost or saved for the taxpayer as a result of action to prevent fraud and error; and***
- ***supplementary information on how much of the overpayments and underpayments have been detected and how much has been recovered or paid out in arrears.***

4. **The Department has lost a grip of Universal Credit overpayments, which account for most of the £3.8 billion increase in fraud and error and are now at the highest overpayment rate of any benefit.** The Department estimates it overpaid £5.5 billion of Universal Credit in 2020–21, which is equivalent to 14.5% of its overall Universal Credit expenditure and £3.8 billion more than 2019–20. This compares to the previous peak of 9.7% overpayments in Tax Credits in 2003–04. The business case for Universal Credit said it would reduce overpayments due to its reliance on real time information on people's incomes from employers. But the rate of overpayments has increased every year since the Department started to measure Universal Credit overpayments in 2015–16. It still aims to reduce fraud and error overpayments to the 6.5% level specified in the original business case for Universal Credit by 2027–28. It also aims to move all the people claiming legacy benefits and Tax Credits to Universal Credit by the end of 2024, which means a significant number of new claimants will shortly move onto a system that is error prone. The Department is unable to show how it expects to achieve the reduction to 6.5% and does not currently have the necessary plan or resources to achieve it.

   Recommendation: ***The Department should, in its Treasury Minute response, set out how it will achieve the target of 6.5%, specifically setting out what it will do, its expected milestones, and its target reductions for every year up to 2027–28.***

5. **The Department was taken by surprise by the significant rise in levels of Universal Credit fraud attributed to self-employment and capital declaration during the pandemic.** This increase in overpayments has been overwhelmingly due to fraud: either individuals stealing taxpayer's money because they saw an opportunity to do so, or organised crime gangs, using stolen identities to defraud the benefits system. The Department knew that its decision to change some of its controls within Universal Credit to manage the surge of claimants at the start of the pandemic was likely to result in an increase in the level of fraud. Not only did more people claim Universal Credit, but more of these people had self-employed income and capital, which are harder to verify than income where tax is paid through the Pay As You Earn system (PAYE). The Department was nonetheless taken by surprise by the extent of fraud against the Universal Credit system and the propensity of claimants to fraudulently misstate their income and capital. Overpayments as a result of fraud from self-employment and capital increased to £1,456 million and £943 million

respectively in 2020–21. We have previously found that slower progress in tackling some of the causes of fraud and error can be due to legislative and regulatory restriction and recommended the Department communicates with Parliament over what additional powers or other controls it needs to address this risk. But the Department has yet to set out what it needs to do to tackle these types of fraud effectively.

Recommendation: ***The Department should, within 6 months, set out its plan for tackling the emergent risks of overpayments as a result of capital and self-employment fraud. As part of this, it should clearly set out what it needs to achieve this, such as changes to its systems, additional staffing, access to data or legislative changes.***

6. **The Department is failing to properly protect taxpayers' money in deciding not to review over 433,000 cases it knows are more at risk of fraud and error.** The surge of new claimants and the Department's subsequent decision to ease its verification checks for Universal Credit during the pandemic created an environment where there was a higher risk of more fraudulent or erroneous claims. In January 2021, the Department decided to retrospectively review the new claims it received. The Department has identified 1.36 million of the 2.1 million new claims made between March and early June 2020 of being at particular risk of fraud or error. Of the 1.36 million cases at risk, the Department had reviewed 585,000 and found that 11% had errors. These retrospective checks have the potential to be a powerful new tool for the Department to tackle fraud and error in existing claims. However, some 433,000 of the 1.36 million new claims for Universal Credit had ended by the time the Department began its retrospective checks in January 2021 and have not been included in the Department's checks. Despite the prevalence of fraud and error within the cases it has already reviewed, the Department currently has no plans to review the claims which were ended before it started its checks, or recover any money potentially lost through these claims.

Recommendation: ***The Department should, within 9 months, review the 433,000 claims identified as at risk of fraud and error that were ended prior to retrospective checking by the Department. It should also consider and set out how else it intends to use retrospective checking as part of its efforts to tackle the causes of fraud and error.***

7. **The Department is not sufficiently transparent about the level of fraud which is the result of advances of Universal Credit to which claimants are not entitled.** Over £1.2 billion of debt is owed to the Department as a result of benefit advances, nearly all of which relates to Universal Credit. At the start of the pandemic, there was a large spike in the number of suspicious claims for advances of Universal Credit, to 9% of all advances. The Department does not include advances in its annual exercise to estimate levels of fraud and error despite evidence that Universal Credit advances are vulnerable to fraudulent claims, particularly where people claim an advance and then do not pursue a subsequent Universal Credit application. We welcome the development that the Department has, for the first time, recognised in its 2020–21 accounts the level of advances that it does not believe it will be able to recover from claimants. The Department estimates that it will be unable to recover £61.2 million

of the £1,224 million advance benefit payments that it was owed at 31 March 2021. However, this does not provide transparency on the levels of advances that were paid out incorrectly in the first place due to fraud or error.

Recommendation: ***The Department should, alongside its annual reporting of fraud and error, monitor and publicly report on the levels of fraud and error arising from advance payments and its progress in tackling this type of fraud.***

8. **The Department has not determined how it will use its experience during the pandemic to put in place controls that better prevent and tackle fraud and error.** The Department has previously accepted that it does not have cost effective controls to prevent fraud and error and that its response to the COVID-19 pandemic presents it with an opportunity to evaluate the controls it has in place and assess their impact on preventing fraud and error. The pandemic has had a huge impact on the Department and has exacerbated many of the complexities and issues that were already in the benefits system. The Department has acted quickly to ensure that claims have been assessed and paid, including adapting its controls against fraud and error to ensure continuity of service to claimants. It is essential that the Department learns from its response and identifies what it should do to ensure these lessons are applied and improve both its ability to respond to emergencies and its business-as-usual service delivery. The Department has identified some examples of how the pandemic has enabled it to try new approaches to try to prevent fraud and error, such as the replication of face-to-face checks online using different technology, asking biographical questions over the phone, or introducing an online verification system. This could free up those working in Jobcentres to undertake other activities to support people looking for work. But the Department has not yet explained whether these new checks will be kept or whether they are more effective than those they replaced. It also admits that with hindsight it would not have eased some of the other controls that it did, such as those surrounding child benefit checks.

Recommendation: ***The Department should use its learning from the pandemic to improve the cost effectiveness of its controls over fraud and error. In particular, it should, within 6 months, assess the impact of the control easements it employed during the pandemic on fraud and error within benefit expenditure and determine the cost effectiveness of each measure it has (or has not) reintroduced.***

1 Fraud and error in the benefits system during the pandemic

1. On the basis of a Report by the Comptroller and Auditor General (C&AG), we took evidence from the Department for Work & Pensions (the Department) on its 2020–21 Annual Report and Accounts and the level of fraud and error in the benefits it administers.[1]

2. The Department is responsible for the delivery of work, welfare, pensions, and child maintenance policy. As part of this, it is responsible for paying benefits to claimants on time, and in full, in accordance with legislation and the related regulations. The Department serves over 20 million claimants and customers. In 2020–21, it spent £212.2 billion on benefit payments to claimants (£111.4 billion excluding State Pension). Of this, £194.5 billion was for benefits paid directly by the Department and £17.7 billion was for Housing Benefit paid on its behalf by Local Authorities. Benefit payments are susceptible to both deliberate fraud by individuals and organised crime groups, and unintended error by claimants and the Department. 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 C&AG qualified the 2020–21 accounts for fraud and error in all benefits except State Pension, because State Pension has low fraud and error. Excluding State Pension benefits, the Department estimates that it overpaid benefits of £8.3 billion equivalent to 7.5% and underpaid benefits of £2.2 billion equivalent to 2% across the £111.4 billion expenditure for all the other benefits, representing the highest levels of benefit fraud and error ever recorded since records began in 2005. The Department often refers to the level of fraud and error across all benefits including State Pension as 3.9%.[2]

3. The Department has produced an annual estimate of fraud and error in benefit expenditure since 2005 as part of the production of the annual accounts, based on its review of a sample of benefit claims. The Department published its most recent estimate of benefit expenditure fraud and error in May 2021, which it used for its 2020–21 accounts published in July 2021. The Department paused its benefit sampling in March 2020 due to the lockdown restricting its ability to visit claimants. As a result, it decided to only sample Fraud and Error in Universal Credit, which it did between July 2020 to November 2020, and State Pension, which it did between October 2019 to September 2020 (with a break May to July 2020) for its 2020–21 estimate. It estimated the level of fraud and error in all its other benefit expenditure using its sampling exercises from previous years or using proxy measurements.[3]

The increase in fraud and error in the benefit system

4. Fraud and error was already high before the pandemic. As part of our examination of the Department's 2019–20 Annual Report and Accounts, we found that the rate of fraud and error had risen before the pandemic to its highest recorded level. During 2019–20, the Department overpaid £4.6 billion (4.8 % of all benefit expenditure excluding State

1 Department for Work & Pensions, Annual Report and Accounts 2020–21, HC 422, 15 July 2021 (Abbreviated in subsequent footnotes to 'DWP ARAC 2020–21'); and C&AG's Certificate and Report on pages 218–249 of same

2 DWP ARAC 2020–21, pages 224–225

3 DWP ARAC 2020–21, pages 17, 106 and 308

Pension).[4] The Department estimated that benefit overpayments during the pandemic rose by an additional £3.8 billion in 2020–21 (to £8.3 billion), almost all of which was attributable to an increase in Universal Credit fraud.[5] This is the largest recorded annual increase in fraud and error in the benefit system and a new record high.[6]

5. The Department worked hard to process new claims at the start of the pandemic, but in doing so significantly increased its exposure to fraud.[7] The Department explained that it had made changes to its systems to cope with an influx of new claimants. It told us that it had a business continuity plan to deal with a large increase in payments, but that this covered the scenario of an economic downturn and flu pandemic. It explained that it had not envisaged it moving to the "end point" of those plans almost instantly and did not think that anyone could have predicted that the "economy was effectively switched off within a few days". It said that despite this it had managed to keep "payment timing up above 90% throughout most of that period".[8]

6. The Department's response to the pandemic was to reprioritise its activities to support the increase in new claims for Universal Credit, which peaked at up to 100,000 claims in a single day.[9] In addition to moving staff to the frontline to process new claims, the Department relaxed many of its counter-fraud controls, such as the initial evidence interview, which it could not carry out face-to-face, in order to comply with the restrictions imposed by the pandemic and to speed-up payments. We have previously found that the need to act quickly and provide support to businesses and individuals in response to the pandemic, and Departments' subsequent decisions to relax or modify controls in place to prevent or detect fraud and error, significantly increased their exposure to both.[10] The Department informed us that the result of the support it had provided to support the country during the pandemic it did expect an increase in fraud and error and that some chose to abuse the arrangements it had put in place at the country's time of greatest need. It recognised that the level of benefit fraud was "unacceptable" and that fraudsters were "stealing from their fellow citizens".[11]

Fraud and error within Universal Credit

7. Universal Credit was particularly vulnerable to fraud during the pandemic. The Department estimated that the gross rate of fraud and error—both over and underpayments—in Universal Credit was 15.9% (£6.1 billion) in 2020–21. The Department estimated that it overpaid £5.5 billion of Universal Credit in 2020–21, equivalent to 14.5% of all Universal Credit benefit expenditure. The estimated rate of overpayments in Universal Credit has risen every year since the Department first started measuring the benefit in 2015–16. 14.5% is the highest ever recorded rate of overpayment for any benefit for which comparable records exist. The previous highest recorded overpayment rate was in Tax Credits (administered by HMRC), which peaked at 9.7% in 2003–04. Fraud within

4 Committee of Public Accounts, *Department for Work and Pensions Accounts*, twenty sixth report of Session 2019–21, HC 681, 18 November 2020, page 5; DWP ARAC 2020–21, page 230
5 Department for Work & Pensions, *Fraud and error in the benefit system: financial year 2020 to 2021 estimates*, 13 May 2021, Table 1 of the published underlying spreadsheet
6 DWP ARAC 2020–21, page 230
7 Committee of Public Accounts, *Fraud and Error, Ninth Report of Session 2021–11*, HC 253, 30 June 2021
8 Q 19–20
9 Q 19
10 Committee of Public Accounts, *Fraud and Error*, Ninth Report of Session 2021–11, HC 253, 30 June 2021
11 Q 5, 18, 35

Universal Credit is also an increasing proportion of the overall fraud and error in the benefits system. In 2020–21, fraud within Universal Credit represented around two-thirds of all benefits overpayments (£5.5 billion of £8.4 billion). This proportion had already been increasing prior to the pandemic as Universal Credit was rolled out, and the Department recognised that it will likely increase as Universal Credit continues to replace its legacy benefits.[12] The Department told us that the rate of fraud and error within Universal Credit was already higher than expected before the pandemic due to there being “more fraud that was going undetected in the system than we had realised”.[13] The Department stressed that it was important not to tar all claimants with the same brush, but recognised that the scale of fraudulent claims was “a significant minority and a bigger minority that we thought” as the data it had used to make assumptions about how much fraud there would be in Universal Credit after it was rolled out had been shown to be flawed.[14]

8. The Department identified three reasons why Universal Credit overpayments increased by £3.8 billion in 2020–21:

- the increase in the number of claimants (accounting for £1,860 million of increased overpayments);
- that more of these new claims include an element of self-employed income or having savings which are more prone to fraudulent misstatement (£650 million of the increased overpayments); and
- the result of the Department’s relaxation of controls to support the new claimants seeking support during the pandemic (£1,300 million of the increased overpayments).[15]

9. The Department also identified four main vulnerabilities in the Universal Credit benefit system to overpayments: incorrectly reported self-employment earnings, misreported levels of savings and capital, housing costs and whether claimants are correctly reporting whether they are living together. These four risk types accounted for two-thirds of all the overpayments in Universal Credit in 2020–21. Incorrect reporting of self-employment income and declaration of capital levels accounted for the highest levels of overpayment at £1,453 million and £943 million respectively. The Department explained that it was surprised by “the underlying nature of fraud” and that it “is bigger than we thought”.[16]

10. Universal Credit overpayments which related to self-employment under declarations increased by 680% in 2020–21. The Department attributed this to the proportion of new claimants identifying as self-employed nearly trebling and the relaxation of key controls to prevent fraud from self-employed claimants. The Department told us that people were fraudulently “not declaring to us what they are earning from self-employment”.[17] The Department recognised that the level of fraud arising from self-employment claims was unacceptably high and its current plans to tackle this were not sufficient for the scale of

12 DWP ARAC 2020–21, pages 225, 229–231
13 Qq 8, 47
14 Q 70
15 DWP ARAC 2020–21, page 233
16 Q 7; DWP ARAC 2020–21, page 238
17 Q 18; DWP ARAC 2020–21, page 238

the problem. It told us that it was "changing that plan" because the problem was "nine times the size" it expected, and confirmed that it clearly needed to tackle the abuse that a minority of self-employed people were making of the system.[18]

11. The Department paused two key controls that were designed to prevent the misstatement of self-employed income as part of its response to the pandemic: the gainful self-employment test and the minimum income floor. The gainful self-employment test required self-employed claimants to produce earnings information and other evidence to confirm whether they are self-employed for purposes of assessing an entitlement to Universal Credit. The Department explained that it did not apply this test during the pandemic.[19] The minimum income floor assumes that self-employed has a minimum level of earnings equivalent to working a 35-hour week at the National Minimum Wage and prevents self-employed claimant declaring an income below this level in their Universal Credit claim in order to claim more benefits.[20] The Department told us that both controls were now being reinstated. It explained that it was phrasing the reintroduction of the minimum income floor as it had a "finite capacity in our job centres to apply the minimum income floor".[21]

12. People who have capital (some form of savings or investments) that exceeds £16,000 are not eligible to claim Universal Credit and claimants with capital between £6,000 and £16,000 should have their Universal Credit benefit reduced based on a formula for implied income.[22] The Department told us that the number of people declaring capital in their Universal Credit application had doubled during the pandemic. It explained the people did not always tell Government about their savings and so were making claims when they were not entitled or were only partially entitled. It estimated that rather than saving the taxpayer money £300 million as expected in its business case for Universal Credit, the level of overpayment as a result of capital rules had almost tripled in 2020–21 to £943 million.[23] The Department recognised that the statistics on benefit fraud from capital were "quite stark", explaining that the "saving from introducing capital controls [in the introduction of Universal Credit] is dwarfed by the amount of money we are losing by people apparently fraudulently not declaring their capital". It accepted that it needed to develop a response to deal with this.[24]

Fraud in Universal Credit Advances

13. Claimants of Universal Credit can request a payment from the Department ahead of their claim being assessed if they cannot wait for the first payment. These payments are known as "advances". An advance is designed to relieve financial hardships claimants may experience to cover the cost of food, rent or emergency housing costs before the eligibility of their claim can be fully assessed. The Department issued advances to around 1.5 million people in 2020–21 and was owed £1,224 million of advances from claimants at 31 March 2021.[25]

18 Q 9
19 Qq 61–62
20 DWP ARAC 2020–21, page 238
21 Q 71
22 Department for Work & Pensions, Advice for decision making: staff guide, Chapter H1: Capital, www.gov.uk
23 Qq 7–8, 73; DWP ARAC 2020–21, page 238
24 Qq 8, 47
25 DWP ARAC 2020–21, pages 28 and 265; Universal Credit advances – GOV.UK (www.gov.uk)

14. Universal Credit advances are particularly vulnerable to fraudulent claims.[26] The Department described some of this fraud as a "hit-and-run kind of fraud, where people claim [an advance] and then they do not pursue a universal credit claim later".[27] In March 2020, the NAO reported on a number of other illegal practices the Department had identified before the pandemic, including providing false information to boost the value of an advance, and fraudulently using the personal identification details of third parties, either knowingly or without their consent. For example, some claimants believed they were being offered a government loan, only to realise later they had been registered for an advance from which the majority of the money had already been seized by the fraudsters.[28] We therefore asked the Department the extent of fraud within Universal Credit advances. It told us that it estimated that the percentage of "high-risk Universal Credit advance payments was less than 1%", down from an estimated 9% peak at the start of the pandemic.[29]

15. We asked the Department how much taxpayers' money had been lost as a result of fraudulent claims for Universal Credit advances. In its 2020–21 accounts, the Department recognised an impairment of £61.2 million from the advances owed to it by Universal Credit claimants that it believes it can no longer recover. This is first time the Department has disclosed the level of advances that it is believes it cannot recover. It did not disclose in its accounts how much was lost due to advances fraud. We asked the Department why it did not include advances in its overall estimate of overpayment fraud and error for Universal Credit. It explained that it used a sample of claims that were in progress to measure fraud and error and that this "does not enable us to look into advance fraud". It noted that it was looking at alternative measures that would capture fraud and error in advances.[30]

16. By the end of March 2021, the Department had identified 152,000 cases of identity fraud associated with a serious organised crime attack. It estimated it mistakenly paid £68 million to 40,000 fraudulent claims, with most of this being advances. This led to 5,363 people whose identities had been stolen having their existing benefits stopped and about 4,000 people who may have wrongfully been asked to make repayments.[31] We asked the Department what it had done to ensure that more victims were not wrongly asked to make repayments. It said that it had put in place a new stolen ID team and if "someone get[s] in touch with us with any hint that they have been subject to a stolen ID, their case is automatically routed through" to the team and it would contact the customer within 48 hours. It admitted that it had learned as it went along, because "the big ID hijack attack was such an exceptional thing" but that it was now in a place where it had identified who had contacted it about their ID having potentially been stollen, and in response "put a pause on it and do not take any [collection] action". It said it wanted to ensure that no one else was "put in this really invidious and very difficult position" and that it had guidance,

26 DWP ARAC 2020–21, page 228; Comptroller & Auditor General, *Universal Credit advances fraud*, Session 2019–2021, HC 105, March 2020
27 Q 45
28 C&AG, *Universal Credit advances fraud*, Session 2019–21, HC105, 20 March 2020
29 Q 43
30 Qq 44–45; DWP ARAC 2020–21; Department for Work & Pensions, Annual Report and Accounts 2019–20, HC 401, 30 June 2020
31 DWP ARAC 2020–21, pages 234–235

training and processes in place to prevent this. But it told us that it could not promise that "there is not one case that could get through, because we have an awful lot of people who are answering calls right across DWP in lots of different places".[32]

32 Qq 49–50

2 The Department's response to the increase in fraud in benefits

The Department's aims and targets for reducing fraud and error

17. The Department told us that it did not expect the overall level of overpayments to go down from 3.9% of 2020–21 benefit expenditure (including State Pension) and claimed that it will have "done well, in fact, to just hold it there".[33] The Department explained that this was partly because many of the easements it introduced during the pandemic were still in place but also because the Department's sampling exercise to collect the data needed to estimate fraud and error in 2021–22 was carried out between January to November 2021. It told us that, while it would publish its statistics on fraud and error in May 2022, the dates of the data on which they are based meant that the statistics will not reflect current progress. For example, the Department said that the minimum income floor easement will not be fully restored until July 2022, and that the impact of this would not be reflected in its reporting until 2024.[34] In addition to the re-introduction of easements, the number of people on Universal Credit is still expected to rise. The Department intends to move all the people claiming housing benefit, legacy benefits and Tax Credits to Universal Credit by the end of 2024, which represents a further 2.5 million claimants. If the level of fraud remains the same on Universal Credit, then this will further increase the level of fraud across the Department.[35]

18. When we examined the Department's 2019–20 Annual Report and Accounts, we recommended that the Department should set annual targets for reducing fraud and error, by risk and benefit, against which its progress can be assessed. As part of our previous inquiry, the Department told us that it "absolutely accepted in principle" that it needed to set a target rate for fraud and error "given the level of public scrutiny".[36] In its response to our report, the Department accepted our recommendation and provisionally agreed to set an overall target for 2020–21 by July 2021, but postponed this due to the disruption caused by the pandemic.[37] The Department received £44 million in the March 2021 Budget for initiatives to tackle fraud and error. However, the Department has not set out what impact on benefit fraud and error it expects to achieve in 2021–22 with the additional resources it has received.[38]

19. We asked the Department what target it was now working towards for fraud and error.[39] Following our evidence session, the Department wrote to us to explain why it had amended the implementation date for responding to our recommendation to introduce a target to the end of November 2021. It told us that the changes to its caseload, the economic environment and the way that it operated, and the further changes it expected as the economy recovered, had created significant uncertainty and did not represent a stable baseline against which to set a target. The Department also said that it had included

33 Qq 36, 68
34 Qq 36, 67
35 DWP ARAC 2020–21, page 229
36 Committee of Public Accounts, *Department for Work and Pensions Accounts 2019–20*, Twenty-Sixth Report of Session 2019–21, HC 681, 18 November 2020, Recommendation 2, para 11
37 HM Treasury, Treasury Minutes – Government responses to the Committee of Public Accounts on the Twenty-Fifth to the Twenty-Ninth reports from Session 2019–21, CP 376, February 2021, page 11
38 Qq 2, 36
39 Q 10

in its Spending Review bid options it believed would reduce the level of fraud and error, so needed to understand the outcome of the Spending Review before it could finalise its target. It confirmed that "…we will therefore announce the target following the Spending Review".[40]

20. The Department confirmed that it still aimed to reduce fraud and error overpayments within Universal Credit to the 6.5% level specified in the original business case for Universal Credit by 2027–28. The National Audit Office, however, found that the Department does not have currently have the necessary plan or resources to achieve this. It similarly found that the Department did not have targets on a one-year horizon or beyond, nor did it have a target for underpayments or amounts detected each year. The Department confirmed that it was still not in a position to set out how it will achieve the 6.5% target. It asserted that for each of the causes of loss it had plans in place and that there was more that it wanted to do. It explained that progress towards this would "depend on having the right enablers in place" and that it was "not going to set out at this stage exactly how we are going to get there, or at what rate" but that it would "do more after the Spending Review".[41]

The impact of measures already taken on the level of fraud and error

21. The Department explained that it had already taken action to reduce fraud and error, but that it did not know if this would be reflected in the official statistics of fraud and error. It set out how it adapted its approach over the course of 2020–21 to prevent the levels of fraud and error being even higher than they were. The Department explained that losses "could have been over £4 billion from the impact of covid" but that it took a number of mitigating actions to reduce the loss "to what is still a very large figure of £1.3 billion."[42] The Department told us that without the steps it took "the level of fraud in universal credit would not have been 14%; it would have been 22%". The Department's estimated that these changes to its easements also reduced potential future loss in future years from £4.4 billion to £0.5 billion.[43] The Department asserted that it wanted to achieve savings worth around £1 billion this year, and that it needed "to understand how that translates into what we are going to see in the overall [Monetary Value of Fraud and Error] numbers."[44]

22. The Department told us that it was possible to save taxpayers' money from overpayments despite rising fraud and error statistics. It explained that reducing overpayments within Universal Credit to 6.5% would represent a saving to the taxpayer of £1.3 billion. This was despite the fact that the overall level would be higher than the 1.8% that it achieved in 2015–16 owing to the bringing together of housing benefits, tax credits and the DWP legacy benefits.[45] It acknowledged "that is a hard thing to get across when you see the headline [Department] numbers going up, but it is what the underlying level of fraud and error is across the entire landscape of benefits and tax credits."[46] It admitted that there was not a simple figure in the legacy systems that allowed it to easily compare-

40 Letter from Peter Schofield to Dame Meg Hillier, 22 September 2021
41 Q 10; DWP ARAC 2020–21, page 240
42 Q 5
43 DWP ARAC, page 113
44 Q 37
45 Qq 11, 46
46 Q 11

and-contrast previous and current levels of fraud and error. It clarified that the definitions in the wording of fraud and error were different in different parts of the Department, which was why it tended to "focus on the overall welfare loss."[47]

The recovery of overpayments and loss to the taxpayer

23. As part of our examination of Fraud and Error across government in June 2021, we found that it is essential that government recovers monies paid out as a result of fraud and error to allow taxpayer's money to be spent on those that need it most, but this can often be a complex and time-consuming process.[48] The Department was owed £2.8 billion relating to the overpayment of benefits at the end of March 2021, and was owed a further £1.2 billion in relation to benefit advances. The NAO found that the "it is not clear how much of the estimated fraud and error loss during the pandemic the Department will recover" and that only fraud and error that is detected on individual cases can be pursued and recovered.[49] The National Audit Office estimated that over the last 5 years around 10% of benefit overpayments have been detected and referred for collection and £16.1 billion had gone undetected, unrecovered, and lost to the taxpayer.[50]

24. The Department told us that it paused its recovery of overpayments during the pandemic between April and June 2020, but was now collecting debt again. The Department explained that during the pandemic its staff responsible for "chasing down fraudsters stayed in place" but that it "moved people off the debt management", and that this impacted its short-term ability to recover the overpayments of benefits. It reported that all its debt management staff were now back.[51] We asked the Department whether it was now pursuing the £200 million of debt which the NAO reported had not been referred to debt management for collection at the time the accounts were produced.[52] The Department subsequently wrote to us to explain that £51 million of this was outstanding as at 6th October 2021 and that it was actively pursuing routes to deal with the outstanding debt.[53]

25. The Department trialled a new online service during the pandemic to help individuals repay the debt they owe. Before the pandemic, individuals who owed debts to the Department repaid these by speaking to debt management staff. The Department launched its first online 'Repay my debt' service in October 2020, which allowed claimants to repay debts through an online system without the need to speak to debt management staff. The Department explained that it started the service "really small" but now had about 129,000 customers using this service. It asserted that this had improved the productivity of its debt management operations.[54] We asked the Department whether it was confident that it would be able to deal with the scale of overpayments. The Department told us that having its system and staff in one place and linked together meant that its modelling and forecasting included what it needed to deal with debt.[55]

47 Q 11
48 Committee of Public Accounts, *Fraud and Error*, Ninth Report of Session 2021–11, HC 253, 30 June 2021
49 DWP ARAC 2021–21, page 226
50 DWP ARAC 2021–21, page 241
51 Qq 26 and 77
52 Q 72
53 Letter from Peter Schofield to Dame Meg Hillier, 6 October 2021
54 Q 81
55 Q 82

Retrospective checking of new Universal Credit claims

26. The Department received 2.1 million new claims for Universal Credit between March and early June 2020, during which it had relaxed some of its controls to prevent fraud and error to help it process and promptly pay these new claimants. The Department told us that as a "first stage" in its efforts to reduce the level of fraud and error following the pandemic, it had initiated "retrospective" action as a way of "tackling the stock of fraud and error already in the system". It noted that it "would like to build on that example and do more sophisticated case cleansing".[56] The Department identified that of the 2.1 million new claims, 1.36 million might have been at particular risk of fraud and error. On initial testing it estimated that 20% of these claims showed fraud or error. The Department undertook retrospective checking of 927,000 claims, which were still live in the Universal Credit system when it started retrospective checking in January 2021. The Department reported it had completed checking on 585,000 of these cases by 31 March 2021.[57] We asked the Department how much progress it had now made with its retrospective checking exercise.[58] The Department told us that further retrospective checks had been undertaken and were now largely complete, and explained that there were errors "in 11% of claims, [where] there was something wrong with the case, and we put it right".[59]

27. Of the 1.36 million claims identified as being at risk of fraud or error, 433,000 had ended before the Department started its retrospective checks in January 2021 and were not included in the Department's checks. In its Annual report and Accounts, the Department noted that it had not yet taken a decision on whether it would undertake further work to recover the amounts potentially lost through claims that had ended.[60] We therefore asked whether the Department planned to review these cases. The Department told us that it did not currently plan to check these claims owing to the likely return and where it needed to use its resources, explaining that "we are assessing whether it is then going to be worth deploying the people on that, or whether there are other backlogs that we need to be addressing across the Department".[61] The Department further explained that it expected the same level of error in the discontinued claims as those it had already retrospectively checked. It asserted that retrospective checking of "live" claims was "a better investment" as it prevented fraud on future payments as well as those that had already been made.[62]

Learning from the pandemic

28. It is essential that Departments learn the lessons from the response to the pandemic to improve both their ability to respond to emergencies and business-as-usual service delivery.[63] We heard from the Department that it was "proud of the extent to which we paid people and helped them stay at home" and that it believed that it achieved the right balance between ensuring people were paid while minimising the level of fraud or error.[64] However, it also recognised that with hindsight there were some controls it would not

56 Q 12; DWP ARAC 2020–21, pages 235, 238
57 DWP ARAC 2020–21, page 235
58 Q 39
59 Q 40
60 Q 41; DWP ARAC 2020–21, page 235
61 Q 41
62 Qq 42
63 Committee of Public Accounts, *Initial lessons from the government's response to the COVID-19 pandemic*, Thirteenth Report of Session 2021–22, HC 175, 25 July 2021
64 Qq 5, 22

have turned off, such as child benefit checks, as it "could have coped with that and still got over 90% of the claims paid…" on time.[65] The Department also adapted some of its controls, particularly around the need to see claimants face-to-face. For example, it instead used the online Verify identify verification system before adapting its own Confirm Your Identity approach. It told us that it also developed better biographical questions so it could better interrogate people over the phone to confirm their identity, as well as implemented a change to allow claimants to upload private rented sector tenancy agreements online which had previously required a face-to-face meeting.[66] The Department acknowledged that these new adaptations, needed during the pandemic, could offer advantages to how it operates the benefits system post-pandemic, as it "frees up people in jobcentres to do other things that are helping people into work and finding jobs".[67]

29. As part of our examination of the Department's 2019–20 Annual Report and Accounts, we found that the Department could not demonstrate that it was doing everything that was cost-effective to tackle fraud and error.[68] We asked the Department if it had assessed the impact of removing and reintroducing controls. The Department confirmed that the pandemic presented it with an opportunity for it to evaluate the cost effectiveness of its control regime and that it had "started with an assessment of the impact of the easements, which could have been £4.2 billion".[69] It admitted that the process of reintroducing these those controls "takes a number of years to play through".[70] The Department told us that as soon as it could re-introduce a control, it did so, but there were still around 100 controls which were not yet back in place. The Department did not comment on which adaptions it made to controls during the pandemic it will retain.[71]

30. The Department estimates that it will need at least 3,000 additional staff to manage fraud and error in its recovery from the pandemic and help it tackle the backlog of compliance cases while staff were redeployed. We asked whether this would be enough given the amount of taxpayers' money at risk of fraud and error, what they would be working on and how much it expected to be able to recover as a result. It told us that it expected to have an additional 3,015 staff in place by the end of the year, who it expected would be spread across it counter-fraud and compliance work. The Department explained that the current rate of return for its work in this area was more than two to one, but stressed that "it is not just about the number of people … it is about using data-matching and technology".[72]

31. We have previously found that slower progress in tackling some of the causes of fraud and error can be due to legislative and regulatory restriction. In November 2020, we recommended that the Department should review the regulatory regime around its fraud and error activities and communicate to Parliament what additional powers or changes to legislation it needed to improve controls on specific fraud and error risks.[73] The Department accepted this recommendation and in its response to our report committed

65 Q 23
66 Qq 5, 21
67 Q 21
68 Committee of Public Accounts, *Department for Work and Pensions Accounts 2019–20*, Twenty-Sixth Report of Session 2019–21, HC 681, 18 November 2020
69 Q 6
70 Q 67
71 DWP ARAC 2020–21, page 29 and 234
72 Qq 25, 28–29, 34–35, 37; DWP ARAC 2020–21, page 235 para 10
73 Committee of Public Accounts, *Department for Work and Pensions Accounts 2019–20*, Twenty-Sixth Report of Session 2019–21, HC 681, 18 November 2020

to bringing any proposed legislative changes to Parliament, and at the same time to developing non-legislative measures to improve counter-fraud activity such as findings new ways to work with banks to access the information it needed. It recognised, however, that the legislative solution had the potential to have the greatest effect on reducing loss.[74] The Department has not yet brought to Parliament any new legislation relating to fraud and error risks. It confirmed, however, that it was considering what data it needed and that this was the main area where it knew there was more that it could do. It explained that it did not need legislation to address some of the issues surrounding self-employment, and that "on legislation it is really about capital". It also explained that it was working with banks to understand how to identify those who were attempting to hide information, and that options such as bulk data transfers from banks would require a change in the law.[75]

74 HM Treasury, Treasury Minutes – Government responses to the Committee of Public Accounts on the Twenty-Fifth to the Twenty-Ninth reports from Session 2019–21, CP 376, February 2021

75 Qq 98–102

Formal minutes

Thursday 4 November 2021

Members present:

Dame Meg Hillier, in the Chair

Shaun Bailey

Sir Geoffrey Clifton-Brown

Peter Grant

Mr Richard Holden

Kate Osamor

Nick Smith

James Wild

The Department for Work and Pensions' Accounts 2020–21 – Fraud and error in the benefits system

Draft Report (*The Department for Work and Pensions' Accounts 2020–21 – Fraud and error in the benefits system*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 31 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Twenty-fifth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

[Adjourned till Monday 15 November at 3:30pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Thursday 9 September 2021

Peter Schofield, Permanent Secretary, Department for Work & Pensions; **Neil Couling**, Director General and SRO for UC, Department for Work & Pensions; **Bozena Hillyer**, Director Counter Fraud, Compliance and Debt, Department for Work & Pensions Q1–112

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

DWP numbers are generated by the evidence processing system and so may not be complete.

1 Thompson, Mr Christopher (DWP0001)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

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4th	COVID-19: Local government finance	HC 239
5th	COVID-19: Government Support for Charities	HC 250
6th	Public Sector Pensions	HC 289
7th	Adult Social Care Markets	HC 252
8th	COVID 19: Culture Recovery Fund	HC 340
9th	Fraud and Error	HC 253
10th	Overview of the English rail system	HC 170
11th	Local auditor reporting on local government in England	HC 171
12th	COVID 19: Cost Tracker Update	HC 173
13th	Initial lessons from the government's response to the COVID-19 pandemic	HC 175
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17th	High Speed 2: Progress at Summer 2021	HC 329
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1st Special Report	Fifth Annual Report of the Chair of the Committee of Public Accounts	HC 222

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5th	University technical colleges	HC 87
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14th	Readying the NHS and social care for the COVID-19 peak	HC 405
15th	Improving the prison estate	HC 244
16th	Progress in remediating dangerous cladding	HC 406
17th	Immigration enforcement	HC 407
18th	NHS nursing workforce	HC 408
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20th	Tackling the tax gap	HC 650
21st	Government support for UK exporters	HC 679
22nd	Digital transformation in the NHS	HC 680
23rd	Delivering carrier strike	HC 684
24th	Selecting towns for the Towns Fund	HC 651
25th	Asylum accommodation and support transformation programme	HC 683
26th	Department of Work and Pensions Accounts 2019–20	HC 681
27th	Covid-19: Supply of ventilators	HC 685
28th	The Nuclear Decommissioning Authority's management of the Magnox contract	HC 653
29th	Whitehall preparations for EU Exit	HC 682
30th	The production and distribution of cash	HC 654
31st	Starter Homes	HC 88
32nd	Specialist Skills in the civil service	HC 686
33rd	Covid-19: Bounce Back Loan Scheme	HC 687

Number	Title	Reference
34th	Covid-19: Support for jobs	HC 920
35th	Improving Broadband	HC 688
36th	HMRC performance 2019–20	HC 690
37th	Whole of Government Accounts 2018–19	HC 655
38th	Managing colleges' financial sustainability	HC 692
39th	Lessons from major projects and programmes	HC 694
40th	Achieving government's long-term environmental goals	HC 927
41st	COVID 19: the free school meals voucher scheme	HC 689
42nd	COVID-19: Government procurement and supply of Personal Protective Equipment	HC 928
43rd	COVID-19: Planning for a vaccine Part 1	HC 930
44th	Excess Votes 2019–20	HC 1205
45th	Managing flood risk	HC 931
46th	Achieving Net Zero	HC 935
47th	COVID-19: Test, track and trace (part 1)	HC 932
48th	Digital Services at the Border	HC 936
49th	COVID-19: housing people sleeping rough	HC 934
50th	Defence Equipment Plan 2020–2030	HC 693
51st	Managing the expiry of PFI contracts	HC 1114
52nd	Key challenges facing the Ministry of Justice	HC 1190
53rd	Covid 19: supporting the vulnerable during lockdown	HC 938
54th	Improving single living accommodation for service personnel	HC 940
55th	Environmental tax measures	HC 937
56th	Industrial Strategy Challenge Fund	HC 941