

Twenty-Fifth Report of Session 2021-22

Department for Work and Pensions

The Department for Work and Pensions' Accounts 2020-21 – 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 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.

Based on a report by the National Audit Office, the Committee took evidence on Thursday 9 September 2021 from the Department for Work and Pensions. The Committee published its report on 17 November 2021. This is the government's response to the Committee's report.

Relevant reports

- NAO report: [DWP Annual Report and Accounts 2020-21](#) – Session 2021-22 (HC 422)
- NAO report: [Report on Accounts](#) – Session 2021-22
- PAC report: [The Department for Work and Pensions' Accounts 2020-21 – Fraud and error in the benefits system](#) - Session 2021-22 (HC 633)

Government response to the Committee

1: PAC conclusion: 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.

1: PAC 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.

1.1 The government agrees with the Committee's recommendation.

Target implementation date: Spring 2022

1.2 However, the Department for Work and Pensions (the department) disagrees with the assertion of the Committee that the scale of fraud and error across the benefits system was at a record high before the pandemic. Analysis of published statistics shows that the rate of incorrect payments from fraud, error and overpayments across benefits and tax credits was falling prior to the pandemic as Universal Credit was expanded.

1.3 The department has already confirmed its intention to set an overall target for fraud and error reduction once the department was clear on its funding ([Treasury Minutes 9](#) and [26 refer](#)), though the department will not propose a target for every benefit or risk area. Detailed monitoring will continue to take place through its annual statistical release for fraud and error, however, having multiple fraud and error targets could distract attention from focussing on longer term structural change to deliver best value for money.

1.4 As set out in the [written statement of 13 December 2021](#) announcing a new £510 million investment in counter-fraud funding, the department is determined to take decisive action and bring the collective weight of government to bear on this growing challenge.

2: PAC conclusion: The Department's failure to recover overpayments means billions of taxpayers' money is almost certainly lost.

2a: PAC 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.

2.1 The government agrees with the Committee's recommendation.

Recommendation implemented

2.2 The department welcomes the endorsement of action already taken with their proposed recommendation. With reference to recommendation 6 in the Committee's report on the [department's accounts 2019-20](#) and the department's [progress report in Treasury Minute 26 \(page 171\)](#), the department set out its plan on what action it is taking to recover the money it has paid out because of fraud or error. It has already agreed 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 for a full year.

2b: PAC recommendation: The Department should set annual targets for recovering taxpayers' money.

2.3 The government disagrees with the Committee's recommendation.

2.4 The department has an internal forecast for 2021-22 and this will be the case going forward, but an external target will not be set due to the level of uncertainty and variables that impact on the amount of debt recovered. This approach allows the department to ensure that every individual's circumstances are considered, and vulnerable claimants are protected. Government policy on the recovery of debt drives this forecast and is set out in legislation that the department must follow.

3: PAC conclusion: We are concerned by the Department's assertion that it will be unable to demonstrate a reduction in fraud and error in 2021-22.

3: PAC 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.**

3.1 The government agrees with the Committee's recommendation.

Target implementation date: Summer 2022

3.2 The department welcomes the committee's endorsement of its annual statistical estimate.

3.3 The Monetary Value of Fraud and Error estimates for 2022 are calculated from reviews carried out between November 2020 and October 2021, so not all action taken in 2021-22 will feature in those statistics. This approach represents a gold standard for measuring fraud and error but there are unavoidable time lags associated with its use.

3.4 Further timely insights on fraud and error cannot meet the high standards of an official statistics release, but the department is happy to continue to share with the National Audit Office (NAO) internal fraud and error information drawn via staff fraud referrals, data streams and real-time cyber-resilience. This is sensitive information and cannot be published but sharing this information with the NAO is intended to reassure the Committee that a programme of activity is underway that will eventually be reflected in the published statistics in the years to come.

3.5 The department is already developing an internal measurement and reporting capability to provide estimates of the amount saved for the taxpayer from fraud and error activities.

3.6 The department is not able to report on the flow of new fraud and error coming into the system, which is by its nature unknown.

3.7 The department has data on the volume and value of overpayments, detected and recovered and is exploring the data and processes available to develop a similar approach for underpayments.

3.8 No data can be published until it has been quality assured.

4: PAC conclusion: 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.

4: PAC 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.

4.1 The government disagrees with the Committee's recommendation.

4.2 The department cannot commit to setting out a detailed six-year plan in an area which has been seen over the past two years to be extremely uncertain, driven by prevailing economic conditions, changes to caseloads within the benefit systems and external factors that are not in the Department's control. As such the department requires an adaptive and flexible approach to tackle emerging threats, leading to a regular review of plans.

4.3 The department remains committed to the Universal Credit business case which implies an overpayments level of 6.5% for 2027-28, although this is not a formal target and capability is being built within the organisation to spot and target the biggest risks as they emerge.

5: PAC conclusion: 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.

5: PAC 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.

5.1 The government agrees with the Committee's recommendation.

Target implementation date: October 2022

5.2 The department will continue to use the Annual Reports and Accounts (ARA) to set out its plans to counter fraud. The 2020-21 ARA set out in detail the impact the unprecedented nature of the pandemic had on fraud and error. While the department temporarily eased several of the stringent checks that would normally be in place for those making a claim to Universal Credit (UC), easements, such as the Gainfully Self-Employed tests, have been removed.

5.3 The department has received new funding of £510 million over the Spending Review period. As set out in the [written statement of 13 December 2021](#), part of the money will be used for a targeted review of UC claims to allow the department to systematically review stock UC cases to uncover fraud and error and remove it from the system.

5.4 Additionally, the department continues to work across government to improve access to data and information which will support efforts to tackle overpayments. It will also consider legislative options for additional powers and sanctions to help tackle fraud and error.

6: PAC conclusion: 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.

6: PAC 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.

6.1 The government disagrees with the Committee's recommendation.

6.2 The department's current assessment is that it would not represent value for money to try and recover closed claims relative to other priorities for action on fraud and error, but choices on resource deployment are regularly reviewed.

7: PAC conclusion: 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.

7: PAC 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.

7.1 The government disagrees with the Committee's recommendation.

7.2 The department is confident in its controls, which have substantially reduced the risk of overpaid advances since the early days of the pandemic. There is a monitoring regime in place which the department has already demonstrated to the National Audit Office.

7.3 The department will explore available data to see if it can strengthen its calculation of the estimate of fraud and error in Universal Credit advances. The department's Annual Report and Accounts will continue to report on its progress in this area, including the amount written off due to advances fraud.

7.4 The department is already working on a new approach in Universal Credit service to prevent suspicious advances from being paid. The department will report progress on this within the Annual Report and Accounts in 2022.

8: PAC conclusion: 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.

8: PAC 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.

8.1 The government agrees with the Committee's recommendation.

Recommendation implemented

8.2 The government welcomes the endorsement of action already taken with their proposed recommendation. The department has already produced an estimate of the fraud and error impact on benefit expenditure of the control easements employed during the pandemic and set out the impact of measures on the Monetary Value of Fraud and Error numbers. Further details are available on page 112 of the department's [Annual Report and Accounts 2020-21](#).