



House of Commons  
Committee of Public Accounts

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**Fraud and error in  
benefit expenditure**

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**Fourth Report of  
Session 2005–06**

*Report, together with formal minutes,  
oral and written evidence*

*Ordered by The House of Commons  
to be printed 18 July 2005*

## The Committee of Public Accounts

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### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

### Committee staff

The current staff of the Committee is Nick Wright (Clerk), Christine Randall (Committee Assistant), Emma Sawyer (Committee Assistant), Ronnie Jefferson (Secretary), and Luke Robinson (Media Officer).

### Contacts

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## Summary

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In 2003–04, the Department for Work and Pensions lost an estimated £3 billion out of its total expenditure of £109 billion to fraud and error — £2 billion of fraud and £1 billion of customer and official error. More recent estimates, highlighted at the hearing, suggest losses are still around the same level, but the Department believe the levels of fraud and error are now broadly equal. The Comptroller and Auditor General has qualified the Department's Accounts for the 15<sup>th</sup> year in succession. Efforts to reduce levels of fraud and error are a priority for the Department, although they must be seen in the context of a wider range of objectives set by Ministers.

Because of uncertainties in measuring fraud and error, figures are rounded to the nearest £500 million. The Department is working to improve measurement but some estimates are more than six years old because priority has been given to the highest risk benefits such as Income Support, Jobseeker's Allowance and Housing Benefit. The Department aims to have arrangements that will measure fraud and error across all benefits on a consistent and up to date basis.

The Department has made progress with reducing fraud levels, especially in Income Support and Jobseeker's Allowance, but levels of customer error, much of it due to the complexity of the benefits, have not changed much in recent years. Official error remains a problem and the Department has lost some ground as a result of a major organisational change to create Jobcentre Plus and the Pension Service.

The complexity of means tested benefits remains a key problem. Simplification is desirable but is likely to lead to some combination of increased programme expenditure and 'rougher justice' since regulations would not be so finely tuned. But fraud and error are unlikely ever to be brought under proper control without further action to simplify the rules.

Local authorities have been losing considerable sums of Housing Benefit in overpayments amounting to some £600 million in the last twelve months. The Department is helping them to take action against fraud through inspections, advice and incentives. In 2003–04, local authorities secured 3,747 successful prosecutions for benefit fraud (1,732 in 2001–02) and applied 8,695 administrative penalties and cautions (2,600 in 2001–02).

The Department believes that its planned reduction of 30,000 staff by 2008 will not have an impact on the overall effort to reduce fraud and error. Reductions in the number of staff involved in anti-fraud work are expected to be offset by better utilisation of staff and a more targeted approach with better use of intelligence and data matching.

The Department was unable to find supporting papers in 106 out of 800 Incapacity Benefit cases selected by the National Audit Office for checking. Without these records, including medical reports, the benefit cannot be administered effectively. It is expected that a new storage contract will help the Department to locate files timeously.

Inadequacies remain in the Department's systems for accounting for customers who have been overpaid and so owe the Department money, which totalled £1.1 billion at 31 March

2004. There is no satisfactory audit trail and at March 2004 not all benefit overpayments had been identified; some had been identified but not referred for recovery action; while others were awaiting input into the recovery systems. Of the estimated £9 billion overpaid on the last three years, £550 million has been recovered. Around 2,600 staff work in debt recovery at a cost of £48 million, or 23p per £1 of debt collected.

## Conclusions and recommendations

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- 1. The Department has made good progress in reducing losses from fraud and error in Income Support and Jobseeker's Allowance by 38% since 1997–98, but still has a long way to go.** The Department's estimates suggest that overall around £3 billion has been lost from fraud and error in each year of the last three years. There are also underpayments, an estimated £385 million in 2003–04. Notwithstanding the progress made, the Department is still not performing to the standards that might reasonably be expected in terms of paying the correct amount of benefit to those who are properly entitled. The Department is also unable to identify exactly how much is owed to it by many of its customers, and has problems with basic record keeping.
- 2. Continuous measurement of fraud and error for all benefits would be prohibitively expensive, but the Department needs estimates that are more accurate than the nearest £500 million.** The Department should develop a measurement programme that covers all benefits, with continuous reviews for those considered to be at highest risk of fraud and error, and periodic reviews which are kept up to date for those at lower risk. The forthcoming results of the exercise to measure fraud and error in Disability Living Allowance should improve the accuracy of the overall fraud and error estimate.
- 3. The Department should benchmark its performance against comparable organisations.** While recognising the difficulties of obtaining comparative data, particularly from the private sector, the Department – perhaps in conjunction with the National Audit Office – should see what might be done to compare its present performance on fraud and error with social security authorities or major private sector financial institutions in the United Kingdom and abroad. The aim would be to identify good practice which could help raise the Department's administration to the standards of the best.
- 4. Wholesale simplification of the benefit system would require policy decisions about the fundamental principles underpinning welfare benefits such as equity and support for those in most need, and could result in large increases in benefit expenditure.** Within these constraints, the Department has nevertheless simplified the rules for some benefits such as Housing Benefit and Pension Credit. It should extend these efforts to other benefits. When introducing new benefits it should frame the rules, systems and processes to make it easier for both staff and customers to understand and apply the regulations.
- 5. At an estimated £1.5 billion each year the monetary value of losses due to errors by staff in making benefit payments remains too high. The recent major re-organisation to form Jobcentre Plus and the Pension Service led to an increase in the level of errors by officials.** This is due to staff moving into unfamiliar roles and the introduction of new methods of working and IT systems. In managing any future changes, the Department should anticipate that levels of official error may rise and plan to deal with this through a comprehensive programme of training and support for staff making decisions on benefit awards.

6. **To meet efficiency targets, the Department is being asked to shed 30,000 jobs, around one quarter of its workforce, at a time when it will be seeking to tackle the persistent causes of fraud and error.** The prospect of job losses may affect morale and lead to increased turnover of staff whose skills are most needed to combat fraud and error. The Department should communicate its intentions early and clearly to all staff to reduce uncertainty about their future.
7. **The Department is planning how to meet the targets set for it with a reduced workforce, but in determining where job losses should take place, it should guard against making administrative savings at the expense of the reduction of losses in benefit expenditure from fraud and error.** In particular it should assess the savings which can be derived from additional staffing being deployed on effective fraud prevention and detection activities such as data matching and intelligence analysis.
8. **To administer benefits fairly and accurately the Department needs to be able to retrieve their customers' records without undue effort.** The Department has taken steps to improve document storage and retrieval, but improvements are needed beyond the current rate of 1.3% not being found. This should arise from activities such as computer logging of all new and existing files under the new storage contract.
9. **The Department is introducing new arrangements for managing debt which in around two years should enabled it to make substantial progress in identifying debt, maximising recovery and providing a satisfactory audit trail.** The Department is spending £100 million on these new debt management arrangements and £2 million on pilot work with private sector debt collectors. The Department should extend this latter work if it can be shown that these collectors provide additional expertise in dealing with those debtors who may be difficult and time consuming to pursue.
10. **The Department has recovered only £550 million of the estimated £9 billion overpaid in the last three years.** Given the potential to recover more money for the Exchequer, the Department should give priority to increasing the rate at which debts are recognised and recorded, for example by tightening local office procedures so that all benefit overpayments are identified at source.

# 1 The scale of fraud and error

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1. The Comptroller and Auditor General qualified the Department's 2003–04 Resource Account because of:

- substantial levels of estimated losses from fraud and error in benefit expenditure recorded in the operating cost statement;
- a significant limitation in the evidence made available to the National Audit Office during the audit of expenditure on Incapacity Benefit; and
- material uncertainties over certain debtor balances in the balance sheet.

The Comptroller and Auditor General has now qualified the accounts of the Department and those of its predecessor Departments for the past 15 years because of the scale of fraud and error in welfare benefits.<sup>1</sup>

2. In 2003–04 the Department spent some £109 billion on a wide range of benefits, employment programmes and the associated administration costs. It estimates that around £3 billion of this expenditure may have been lost from benefit payments because of fraud and error, the same estimate as reported in 2002–03 and 2001–02.<sup>2</sup>

3. The Department has nevertheless made progress in reducing fraud in the three highest risk benefits. The Department estimates that in 2003–04 overpayments to customers of working age from fraud and error in Income Support and Jobseeker's Allowance amounted to £840 million, 6.4% of expenditure on those benefits. This compares to an equivalent sum of £1220 million, 10.4% of expenditure, in the period October 1997 to September 1998, the first year that the Department produced accurate estimates for fraud and error in these benefits.<sup>3</sup>

4. The Department said that losses from fraud and error in Housing Benefit, which is paid by local authorities on the Department's behalf, is currently estimated at around £600 million (4.9% of expenditure on that benefit), which is a reduction from the baseline of £700 million for 2002–03 (5.4%), when the Department began continuous measuring of Housing Benefit fraud and error.<sup>4</sup>

5. While therefore some progress had been made with fraud, especially in Income Support and Jobseeker's Allowance, there had in recent years been little change in levels of customer error, much of it caused by the complexity of the benefits. Official error remained a problem and the Department had lost some ground as a result of the recent restructuring to create Jobcentre Plus and the Pension Service. The churn in the organisation

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1 C&AG's Report, *Department for Work and Pensions Resource Accounts 2003–04*, paras 2, 5

2 *ibid*, paras 1, 4

3 *ibid*, paras 4, 7

4 Q 90

and the disruption caused by the introduction of new techniques and improved IT systems had increased the level of official error.<sup>5</sup>

6. The Department said that tackling fraud and error was an important priority, although it had to be seen in the context of a range of objectives set by Ministers. It has a set of public service agreement targets and resources allocated to achieving them. Reducing fraud and error was one of a number of objectives, alongside, for example, helping people into work and increasing take up of pensioner benefits. Ministers also expected the Department to maintain the quality of service to customers and make staff reductions. The budgets and targets together drove the running of the Department. The current efficiency programmes would allow the Department to meet most of the targets within budget and reduce the number of staff by 30,000 by 2008 as planned. Savings arising would be in the order of £1 billion a year.<sup>6</sup>

7. The Department's estimates of fraud and error in benefit expenditure are based on a mixture of in-depth rolling programmes that re-perform a large sample of benefit awards each year in particular benefits, and snapshots of fraud and error on other benefits which are up to six years old. On this basis £2 billion has been attributed to fraud and £1 billion to error. Because of uncertainties in measuring fraud and error, figures are rounded to the nearest £500 million. Compared with 2000–01 estimates, the Department now believed that on a rounded basis the figure for fraud was £500 million lower, though the reduction was not a saving which had occurred in one year. Official error on the other hand had shown some increase in consequence of restructuring. So while the overall fraud and error level was still estimated at around £3 billion, fraud and error were both now estimated to be about £1.5 billion.<sup>7</sup>

8. The Department was working to improve the accuracy of its measurement of fraud and error but the work was expensive, and priority had been given to the highest risk benefits. Thus attention had focused on Jobseeker's Allowance, Income Support, and Housing Benefit. Retirement Pension was a considerable proportion of the welfare budget but was not generally susceptible to fraud. A review of Disability Living Allowance was published in the summer of 2005, which will help to produce a more accurate estimate, and the Department was also intending to look at Incapacity Benefit. It aimed to have arrangements that would measure fraud and error across all benefits on a consistent and up to date basis.<sup>8</sup>

9. Assessing how well the Department is performing on fraud and error is made difficult by a lack of comparators. The Department did not think that it could readily be benchmarked. In comparison with other countries it might show up badly because it had a record of

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5 Qq 86–88, 110–111

6 Qq 128, 132

7 Qq 1–7, 34–36

8 Qq 4, 8, 51

measuring fraud and error, which was quite unusual. It could not obtain data on fraud and error from the private sector.<sup>9</sup>

10. The Department thought that a significant reduction in fraud and error would take many years, but confirmed that progress was being made in specific benefits. It was in line to meet targets set by the Government for 2006 for Income Support, Jobseeker's Allowance and Pension Credit, although it was uncertain whether it would achieve the 25% reduction target on Housing Benefit. Even here, it expected to be able to report substantial progress by 2006. Overall, however, there was no possibility of eliminating fraud and error with the present framework of benefits. The losses had to be seen in the context of the £105 billion of programme expenditure.<sup>10</sup>

11. As anticipated, the ending of the use of giro and order books and the introduction of payment of benefit by direct debit was reducing the scope for fraud. In 2004–05, as a result of the new methods of payment, the Department expected to reduce fraud by £45 million and save £160 million in administrative costs from new methods of payments. It expected that these amounts would rise to £60 million and £400 million in due course, before offsetting the cost of the Post Office card account. The Department said that in March 2005 25.6 million were being paid by direct debit, and it had more than achieved its target of 85% of customers paid in this way. It was aiming to increase much further the percentage paid by direct debit.<sup>11</sup>

12. There are still regional differences in fraud and error rates. Fraud and error rates in London remain higher than elsewhere, as they were when the Committee reported in 2001–02, but they are converging with the rest of the country. For example, in 2001–02 fraud and error in Income Support and Jobseeker's Allowance in London was 9.9% of expenditure compared with 7.6% nationally. In 2003–04 the comparable figures were 7.2% and 6.4% respectively. Within the South East, however, the percentage of overpayments from fraud, customer error and official error in Income Support and Jobseeker's Allowance has increased since 2001–02. Fraud is acknowledged to be higher risk in London and the big cities than elsewhere.<sup>12</sup>

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9 Qq 112–115

10 Qq 37–51

11 Qq 23–33

12 Qq 116–117; Ev 15

## 2 Action still needed

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13. The complexity of the system is a key problem for means-tested benefits. Housing Benefit, for example, has very complex rules for income, individuals' circumstances and rent levels. The Department agreed that simplification was desirable but said that it would increase programme expenditure and lead to 'rougher justice' for some people since regulations would not be so finely tuned.<sup>13</sup> There had been some action to simplify in certain areas such as Pension Credit and in the Housing Benefit reforms being piloted. The Department said it was not complacent and was keen to examine the scope for simplification. Complexity was however inherent in the detailed legislation for benefits passed by Parliament, although in the past there had been insufficient focus when developing the rules on how benefits would actually be delivered.<sup>14</sup>

14. Local authorities have been losing considerable sums of Housing Benefit in overpayments, and experience many of the same problems as the Department in administering benefits. To defraud the system some people misrepresent their circumstances, and whether they are really living at the address. Customers can also make genuine mistakes, and there is also complexity in the way benefits inter-relate, which can lead to official error. The Department is working with local authorities to help them to take action against fraud through inspections, advice and incentives. It is generally satisfied with the level of data matching being undertaken, although there are some problems with the timeliness of data. Other approaches include decision support systems and risk based work to focus on those customers most vulnerable to error. The Department is confident that most local authorities are committed to reducing fraud and error. Some 80% of local authorities have overpayment recovery rates of more than 50%. Where there is evidence of criminal activity, action can be taken. In 2003–04, local authorities applied 8,695 administrative penalties and cautions for benefit fraud, compared to 2,600 in 2001–02. In addition, local authorities secured 3,747 successful prosecutions for benefit fraud in 2003–04 compared to 1,732 in 2001–02.<sup>15</sup>

15. The Department is now planning to cut 30,000 jobs, with potential implications for its efforts to tackle fraud and error. The Department said that it had a gateway process for the whole programme and a specific gateway process for each of the component parts.<sup>16</sup> Reductions in the total number of staff involved in anti-fraud work would be offset by better utilisation of staff and a more targeted approach to the work, including better use of intelligence and data matching. It intended there would be no impact on the overall effort to reduce fraud and error, where public service agreement targets would require continued progress.<sup>17</sup>

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13 Q 10

14 Qq 11–13, 121–122

15 Qq 57–59, 90–97, 119

16 Q 127

17 Qq 16–21

16. The Department intended to improve performance across the Department with a quarter less staff through a series of transformation programmes all based on the same set of principles. These were: clarity of organisation; getting scale; providing off the shelf IT; and linking everything up more effectively, including having a much better payments system. It was probably one of the biggest change programmes in Europe, which would be difficult to handle, but the Department was confident it could do it.<sup>18</sup>

17. One of the causes of the qualification of the Department's 2003–04 accounts was its inability to find the supporting papers in 106 of the 800 Incapacity Benefit cases selected by the National Audit Office to check that eligibility conditions had been met and that accurate payments had been made. The absence of such records raises wider issues about how customers can be dealt with effectively when information about their status, including medical reports, cannot be located timeously. The missing 96 files were subsequently found, but the Department accepted that it needed to ensure that the National Audit Office got the information it needed to complete its audit. A similar problem arose at the Committee's hearing in January 2005 on the Social Fund. The Department expected their new storage contract to help them locate files, and said the problem was only at the margins, with a 1.3% missing rate.<sup>19</sup>

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18 Q 134

19 Qq 14–15, 52–56; C&AG's Report, paras 12–14

## 3 Managing debt

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18. The Department's accounts were also qualified because of inadequacies in its systems for accounting for customers owing the Department money they had been overpaid, which totalled £1.1 billion at 31 March 2004. There is no satisfactory audit trail through these systems. At 31 March 2004 not all benefit overpayments had been identified, some had been identified but not referred for recovery action, and others were awaiting input into the recovery systems.<sup>20</sup>

19. The Department expected to only recover £550 million of the estimated £9 billion overpaid in the last three years. Fraudulent payments could only be recovered if they were tracked down, and some of the debt from official and customer error was of a kind that the Department would not seek to recover.<sup>21</sup> Four years after the introduction of resource accounting, the Department still does not know how much it is owed by a significant number of its customers.

20. The Department has decided on new ways to identify and manage debt as part of creating a more focussed organisation, standardising the processes, putting staff in a small number of centres where they can be experts, providing a set of commercial off the shelf software to help people manage the IT systems, and improving the linkages between debt management and the accounting systems of the Department as a whole. The Department expect to complete the migration of existing data on debt to a new debt management system by September 2005, and believe in around two years' time it will have made substantial progress in improving the management of debt.<sup>22</sup>

21. Around 2,600 staff work in debt recovery, at a cost of £48 million, or 23p per £1 of debt collected on average. Employing more on debt work might help recover more debt, but the Department believes that the improvements it has in train, on which it is spending some £100 million should increase recovery more effectively than simply increasing the number of staff engaged on debt management. In addition the Department had to live within agreed resources, with debt recovery just one of a number of priorities. It expected broadly the same number of staff on debt work after the job cuts, who would take on more debt recovery work as the Department centralised its business in this area. The Department had obtained funding, some £2million over 3 years, to pilot work with private sector debt collectors for pursuing claimants who were no longer in receipt of benefits.<sup>23</sup>

22. The Department was not authorised to use increased debt recoveries to fund additional posts to chase debts that were harder to collect. The amounts for the Department's staffing

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20 C&AG's Report, paras 15–18

21 Q 22

22 Qq 134–135; C&AG's Report, para 16

23 Qq 61–72

budget were set separately. But as part of each Spending Review the Department had an opportunity to make a case for additional staff on any part of its business.<sup>24</sup>

23. As regards the relative attention given to recovery of debt due to error and to fraud, the Department's focus was on recovering as much recoverable debt as possible, whatever the cause. There were distinct rules for recovering overpayments arising from official error. For fraud debt recovery was only one aspect of the Department's strategy which included, for example, sanctions and legal action including prosecution and imprisonment. The maximum amount the Department could recover was higher for fraud than for error (£11.20 per week compared to £8.40). There were rules about how debt could be recovered and who had first claim on the debt, and the Department was usually the last to be able to make a recovery.<sup>25</sup>

24. Where customers had been overpaid, the Department could write off arrears. If the overpayment was a result of its own mistakes it would ask for the money back, but would not necessarily press for it, especially if it had been spent in good faith. On the risk that some people, such as the elderly, would want to pay the money back and might go without food to ensure they could, the Department had to balance concern for individuals with responsibility to the taxpayer.<sup>26</sup>

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24 Qq 136–144

25 Qq 73–81, 99

26 Qq 123–126

# Formal minutes

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**Monday 18 July 2005**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Mrs Angela Browning  
Greg Clark  
Helen Goodman  
Ms Diana R Johnson

Mr Sadiq Khan  
Sarah McCarthy Fry  
Jon Trickett  
Mr Alan Williams

Draft Report (Fraud and error in benefit expenditure), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 24 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Fourth Report of the Committee to the House.

*Ordered*, That the Chairman do make the Report to the House.

*Ordered*, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

[Adjourned until Wednesday 12 October at 3.30 pm]

## Witnesses

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**Wednesday 9 March 2005**

*Page*

**Sir Richard Mottram KCB**, and **Mr John Codling**, Department for Work and Pensions

Ev 1

## List of written evidence

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1 Department for Work and Pensions

Ev 14



# Oral evidence

## Taken before the Committee of Public Accounts

on Wednesday 9 March 2005

Members present:

Mr Edward Leigh, in the Chair

Mr Ian Davidson  
Mr Brian Jenkins

Mr Gerry Steinberg  
Jon Trickett

**Sir John Bourn KCB**, Comptroller and Auditor General, and **Mr Paul Cannon**, Director, National Audit Office, further examined.

**Mr Brian Glicksman**, Treasury Officer of Accounts, HM Treasury, further examined.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

#### Department of Work and Pensions: Resource Accounts for 2002–2003 (HC 170)

*Witnesses:* **Sir Richard Mottram KCB**, Permanent Secretary and **Mr John Codling**, Group Finance Director, Department of Work and Pensions, examined.

**Q1 Chairman:** Good afternoon. Welcome to the Committee of Public Accounts, where today we are looking at fraud and error in benefits expenditure and are joined by witnesses from the Department of Work and Pensions. We welcome back Sir Richard Mottram, who is Permanent Secretary, and Mr John Codling, Group Financial Director. My first question is that we were interested to see an article in the *Guardian* yesterday, Sir Richard, “£500 million saved in benefits fraud crackdown”<sup>1</sup>. This article apparently results from an exclusive briefing from Mr Pond. It does not have anything to do with the hearing today, does it?

**Sir Richard Mottram:** Does it have anything to do with the hearing today? No. I think it has something to do with Mr Pond wanting to get on the record the progress we have made on fraud, Chairman.

**Q2 Chairman:** So the estimate for fraud and error has hardly shifted from £3 billion over three years. This is an official figure now, is it; £500 million now saved on fraud?

**Sir Richard Mottram:** The position is this, Chairman, that because of some uncertainties of how we can measure all of the fraud and error across the whole suite of benefits for which we are responsible, we have been rounding some of these numbers to the nearest half a billion pounds—and I can go into detail for the Committee. The total I am talking about—we have been rounding the numbers to the nearest half billion pounds. The position we are in is that we now believe that the figure for fraud rounded in that way, if you compare where we are now with where we were in 2000–2001, which is not quite the implication of that article, we believe that fraud on that rounded basis is about half a billion pounds lower.

**Q3 Chairman:** But you see, these figures that appear in *The Guardian* have not been audited by the NAO, have they?

**Sir Richard Mottram:** There are no new figures, Chairman, that are not reflected in this Report. We are not suggesting that they should be audited by the NAO because there are no new figures.

**Q4 Chairman:** You are going to change your definitions of how you calculate fraud—is that right?

**Sir Richard Mottram:** We certainly have discussed this with the NAO and, as we explained to the Committee when I last appeared on some of this subject, we have been looking at fraud and error in relation to Disability Living Allowance, and we will publish some new figures about fraud and error in relation to Disability Living Allowance in the summer. At that stage we will try and give a slightly different way of breaking down these numbers and reduce the level of the rounding. That is what we are talking about. These will be figures that will be published as national statistics, that is the figures in relation to Disability Living Allowance; and then we can have a conversation with the NAO about what that implies in the totality of the way in which we estimate fraud and error.

**Q5 Chairman:** You will understand that we are laymen trying to deal with this, and it would have been quite helpful if you had given us all this ten days ago.

**Sir Richard Mottram:** But there is not anything new, Chairman.

**Q6 Chairman:** This headline of “£500 million saved in benefits fraud crackdown” is real savings, and it is nothing to do with a change in definitions.

**Sir Richard Mottram:** No, this is our rounded forecast of the level of fraud in the system, if you compare where we are now as in the papers before you, Chairman, broadly speaking, with where we

<sup>1</sup> Hencke, D (2005), “£500m saved in benefits fraud crackdown”. *The Guardian*, 8 March 2005. p 3.

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 Department of Work and Pensions
 

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were in 2000–2001. It is not a £500 million saving in one year, as the article implied; and it is not new figures, and I did not come here to announce new figures, as the article implied, because obviously if I were going to do that, Chairman, I would have given you notice and told you what they were.

**Q7 Chairman:** So we should not take too much notice of *The Guardian*, then?

**Sir Richard Mottram:** I would take notice of the fact that we think we have made substantial progress in reducing fraud in the system, but I would not take too much notice of the detail in *The Guardian*, no.

**Q8 Chairman:** Would you look, please, at paragraph 4, page 21, where you will see that some of your estimates are more than six years old. How can you target your action to deal with fraud and error if some of your estimates are more than six years old?

**Sir Richard Mottram:** It is because what we focus on, and the benefits that we are continuously reviewing in terms of fraud and error, are those where we believe there is the highest incidence of risk, which is principally in income-related and means-tested benefits. We have a programme of continuous review of those benefits. Then, for other benefits, because this is quite an expensive and difficult process, we have been looking at them periodically. I would like us to have a more consistent process where we still have a continuous review of some of the key benefits, and then we ensure that we are periodically looking at all of the others; so I would hope we could develop such a programme, and obviously we can share it with you, Chairman.

**Q9 Chairman:** In paragraph 11 on page 22, you can see there that local authorities seem to have overpaid substantial amounts, as much as £650 million in Housing Benefit. Why is that, Sir Richard?

**Sir Richard Mottram:** That is for the same set of considerations that face the Department, Chairman. It is a combination of fraud, customer error and in this case local authority error. It comes out of the fact that these are means-tested benefits. In the case of Housing Benefit there is a very complex set of rules around that.

**Q10 Chairman:** Which of course begs the question about the complexity of these rules, which is a major reason for the fraud and error in the system, which is a point we have made continuously.

**Sir Richard Mottram:** Chairman, I think the NAO are looking at simplifying the benefit system. I would personally absolutely like to simplify it. The problem with simplification, as we have discussed before, is that it makes slightly rougher justice so to speak, because it is not so fine-grained in comparisons between people; and the way in which you implement it almost always leads, at least in the short term, to an increased annually managed expenditure. We are certainly looking at ways in which we might simplify it, and we have made some progress in making simplification, if you look at something like Pension Credit and the work we have in hand on Housing Benefit. We are quite keen to

have a discussion with the Committee—it is not often people own up to being keen to have a discussion with the Committee—when the NAO Report on benefits’ simplification is completed.

**Q11 Chairman:** Because your accounts have been qualified by the Comptroller and Auditor General for 15 years.

**Sir Richard Mottram:** Yes. I have not been here for 15 years, Chairman, but it feels like it.

**Q12 Chairman:** I am not blaming you personally.

**Sir Richard Mottram:** Yes, he has qualified them for us.

**Q13 Chairman:** I just wondered, because I know you would say this is perhaps a policy point and for the Minister to decide, but if you are running an organisation that has had its accounts qualified for 15 years, do you not think it is your duty, as Permanent Secretary, to advise Ministers that the system is too complex—“we are never going to get our Report through the Comptroller and Auditor unless we simplify matters” or are you very relaxed about the fact that your accounts are qualified year after year?

**Sir Richard Mottram:** I am not at all relaxed, Chairman. An indication of the fact that we are not relaxed is that we have been working progressively to reduce the number of qualifications of our accounts, and we have made some progress in that area over the last four or five years. There is further progress we can make, but the big problem for us is indeed the qualification that relates to fraud and error. The Comptroller and Auditor General has set a test of 1% of benefit expenditure. That is quite a demanding test within the present framework that Parliament has chosen that we should operate this system in. I certainly do advocate simplification, but this is ultimately a matter for Ministers and for Parliament, not a matter for me.

**Q14 Chairman:** I will not repeat the point I made, but one of the reasons why your accounts are qualified, is that if you look at paragraph 14, page 22, you can see that the NAO went in and selected 800 documents—these were supporting papers—and 106 of them you were unable to find. What has gone wrong?

**Sir Richard Mottram:** There are two sets of issues here. One is about the way in which these particular cases were handled, and the lesson of that is that we need to work more closely with the NAO when they want to find such cases because, Chairman, since the accounts were qualified I have obviously gone back, as you might have expected, and sought to identify these 106 missing cases. In fact, we have tracked down 96 of them. So there are issues there around how the NAO get the cases, how far we are making sure that our machinery really facilitates them doing this, and how far we need closer liaison as they are trying to get the cases—

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**Q15 Chairman:** You can see the point I am making. The NAO selected these at random. What worries me is if one of your customers comes back with a query, if on a random sample you have lost 106 of 800, what is the customer going to do? How will his query be dealt with?

**Sir Richard Mottram:** We have found 96 of these 106 cases, so it was an issue of locating them. The system, put very crudely, consists of cases held in local offices—and some of the problem arose over local offices tracking these cases—but while a customer is dealing with a local office I think you can have reasonable confidence the local officers will put their hands on these cases—and then the cases moving around the system. We have recently introduced a more centralised approach to storage. There, we have replaced the contract and we have a new approach. We have every confidence that we are going to be much better able to locate those cases that have been transferred from local offices to the central store.

**Q16 Chairman:** You are going to cut your staff by 40,000 by 2008, are you not?

**Sir Richard Mottram:** It is 30,000 net, Chairman.

**Q17 Chairman:** I am sure if I asked you about that and how that would impact on fraud and error, you would tell me that you are not going to cut any staff on the front line—but are fraud inspectors counted as back office or front line?

**Sir Richard Mottram:** Well, I am not sure that is a very helpful distinction anyway, but—

**Q18 Chairman:** It is a question which I have asked you.

**Sir Richard Mottram:** I would regard them as front line.

**Q19 Chairman:** So they are counted as front line.

**Sir Richard Mottram:** I would regard them as front line, yes. I would expect that in the process of reducing the Department by 30,000 net, we would reduce the number of fraud inspectors, or at least reduce the number of people engaged in the total fraud effort of the Department, the number of staff engaged in the total fraud effort of the Department. The reason why I think we can contemplate that is by a combination of better utilisation of staff, so probably changing the ratio of the front-line inspectors to those that provide clerical support—much more targeted approaches using intelligence and a better data matching of the kind talked about in the report.

**Q20 Chairman:** You are relying on new IT systems, are you not? Your Department has a not very good record of introducing IT systems that work.

**Sir Richard Mottram:** I think my Department actually has a very good record of introducing new IT systems, Chairman. We have one substantial problem of a kind and a contract which we have no intention ever of repeating. If you look at our broader track record, you could argue it is one of the best in central Government.

**Q21 Chairman:** These staff reductions will not impact on your ability to deal with fraud and error?

**Sir Richard Mottram:** It is our intention, Chairman, that they not only do not impact on it, but actually that we make further progress on fraud and error because we have public service agreement targets to reduce it.

**Q22 Chairman:** You overpaid £9 billion in the last three years, and you are going to recover £550 million of that. Why is that?

**Sir Richard Mottram:** We forecast—we have estimates that suggest that we have a total level of fraud and error in the system, which is £9 billion over three years. Not all of that of course would be recoverable. The fraud is only recoverable if you can track it down. Some of the error is official error of a kind that you would not recover; and similarly for customer error, you have to identify it in relation to individual customers, which is not the same as the forecast we make about the £3 billion fraud and error in the system.

**Q23 Mr Steinberg:** When they brought in the new way of paying benefits, one of the selling points so far as I was concerned to my constituents was that it would reduce fraud in terms of the giro book. We were told by direct debit this would reduce fraud. What evidence is there now to show it has reduced fraud? Is there any evidence?

**Sir Richard Mottram:** I do not know whether we have yet got the evidence in detail, but what it will certainly do is, since we have now eliminated order books, instrument of payment fraud will, by definition, no longer be possible.

**Q24 Mr Steinberg:** I asked if it had reduced fraud.

**Sir Richard Mottram:** That is the fraud.

**Q25 Mr Steinberg:** So give me the figures for it.

**Sir Richard Mottram:** The figure is £80 million.<sup>2</sup>

**Q26 Mr Steinberg:** So we save £80 million this year because of the direct debit savings.

**Sir Richard Mottram:** This year has been a transitional year because we obviously have order books, and I do not have the figures with me.

**Q27 Mr Steinberg:** What would you expect it to save?

**Sir Richard Mottram:** In the current year?

**Q28 Mr Steinberg:** In the future.

**Sir Richard Mottram:** It will save the whole instrument of payment fraud because there will no longer be a possibility of fraud.

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<sup>2</sup> *Note by Witness:* This figure is made up of around £60 million (which will be eliminated by the move to Direct Payment) and around £20 million on girocheque fraud which could continue.

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**Q29 Mr Steinberg:** Yes, but what is that?

**Sir Richard Mottram:** It is £80 million.

**Q30 Mr Steinberg:** The maximum amount would be £80 million a year it would save. Would it be more than that?

**Mr Codling:** Our latest estimate of the savings deriving from the new method of payments in terms of benefit savings in net terms is £45 million, and it will be £160 million on administrative savings. That is in the current year. These figures rise significantly in the future. They are rising to £60 million benefit savings and in excess of £400 million per annum on method of payment savings before offsetting the cost of the Post Office card account.

*The Committee suspended from 3.50 pm to 3.57 pm for a division in the House*

**Q31 Mr Steinberg:** How many customers are now paid by direct debit?

**Sir Richard Mottram:** About 22 million.<sup>3</sup>

**Q32 Mr Steinberg:** Have you reached your target?

**Sir Richard Mottram:** We have indeed reached the target. The total that we pay by direct payment is 25,576,000 as at 4 March.

**Q33 Mr Steinberg:** That is the target.

**Sir Richard Mottram:** The Public Services Agreement target was to have 85% of our customers paid by direct payment. We have more than achieved that, but in fact for financial and customer service reasons 85% is not our aspiration; we want much higher than that.

**Q34 Mr Steinberg:** Clearly fraud and error is a major drain on the resources of this country, and the taxpayer pays for it at the end of the day. It appears to be going down, but it is going down very slowly. I had understood it was £3 billion and we are now told it is £2.5 billion.

**Sir Richard Mottram:** No, you are not told it is £2.5 billion.

**Q35 Mr Steinberg:** Where the hell is that half a million?

**Sir Richard Mottram:** Because the—

**Mr Steinberg:** It does not matter.

**Q36 Chairman:** I think this is quite important and we ought to tease this out. We are still having difficulty in getting to the bottom of this, so explain to us.

**Sir Richard Mottram:** The position is that in 2000–01 the broad estimate rounded to the nearest half a billion was £3 billion, and that was roughly £2 billion worth of fraud and £1 billion worth of error. Our latest estimates—and I am not announcing anything new today, but I do not want to go back over all that again—are £3 billion rounded to the nearest half billion, but the fraud element has substantially reduced, so it is now roughly speaking

£1.5 billion/£1.5 billion. The difficulty in all of this is that you might say to me as your next question, “although fraud has gone down, the error has gone up by exactly the same amount” and the answer is it has not; but because we have rounded the total estimate in such a broad-brush way, it makes it very complicated. Each of the estimates in 2000–01 was rounded to the nearest half billion. If you now did exactly the same thing you would find it is still apparently £3 billion, but the division is different. If, however, we were allowed to un-round these numbers, you would see some progress.

**Mr Steinberg:** That has answered that well. Now that we understand . . .

**Chairman:** Your answers are getting clearer.

**Q37 Mr Steinberg:** We still have £3 billion of fraud and error. That is an enormous amount of money, Sir Richard.

**Sir Richard Mottram:** It is indeed.

**Q38 Mr Steinberg:** When are you going to reduce it considerably? When are you going to come to this Committee and say, “gentlemen and ladies, I can now report to you that it is down to under £1 billion, the very small amount of £1 billion” When can we expect that?

**Sir Richard Mottram:** Not for a considerable number of years.

**Q39 Mr Steinberg:** How many years?

**Sir Richard Mottram:** I am not in a position to say.

**Q40 Mr Steinberg:** I have been on this Committee for five years and it has hardly come down at all in five years, has it, really?

**Sir Richard Mottram:** The problem we have here—to get myself back into the same morass—if you look at the individual benefits that we are measuring continuously that are referred to in the Report before us, you can see that we are definitely making substantial progress.

**Q41 Mr Steinberg:** What would you say was your target?

**Sir Richard Mottram:** I do not have one, other than the PSA targets I have in relation to individual benefits, which I could describe to you. I have targets in relation to Income Support, Jobseeker’s Allowance, Pension Credit and Housing Benefit.

**Q42 Mr Steinberg:** If you add them all up, surely you come to a single target.

**Sir Richard Mottram:** No, because there are a number of benefits that are not covered by these targets.

**Q43 Mr Steinberg:** When do you hope those targets will be achieved?

**Sir Richard Mottram:** We have targets in relation to Income Support and Jobseeker’s Allowance for 2006, and I expect we will achieve our target. We are ahead of schedule on that. We have targets in relation to Pension Credit for 2006 and I expect us to achieve that target. We have a target for Housing

<sup>3</sup> *Note by Witness:* The exact latest figure is quoted in response to Question 32.

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Benefit, reduction of 25%. It is still an open question whether we will achieve that target. I expect to come back to this Committee in 2006, if I am still around, and say, “we have made substantial progress in relation to . . .”

**Q44 Mr Steinberg:** If I had been the minister, I would have said, “Sir Richard, clearly you are not meeting your targets . . .”

**Sir Richard Mottram:** I am meeting my targets.

**Q45 Mr Steinberg:** Well, clearly you are not reducing it enough, Sir Richard. “I will give you two years, and if you do not reduce it by 50% I will sack you and all the civil servants involved in this”. Do you think you would achieve it then?

**Sir Richard Mottram:** I have one target which is to reduce something by 50%. This is one of the many things which my Ministers ask me to do, and I think they evaluate my performance on a broader range than just this one.

**Q46 Mr Steinberg:** That might be the case, but as far as I can see, it does not matter whether you fail in anything else, £3 billion a year could build a hell of a lot of hospitals and schools, and put a lot of money into the Health Service other than hospitals, and we could build a lot of roads. So if you fail at everything else and manage to get this down to nothing, I would regard that as a huge success. Not only would I make you a Sir, but I would make you a Lord as well!

**Sir Richard Mottram:** You and I have discussed this before.

**Q47 Mr Steinberg:** What, making you a Lord?

**Sir Richard Mottram:** Yes! The serious point I would make is that there is no possibility of reducing fraud to nil while we have the framework of benefits we have at the moment. There is no organisation with the scale of responsibilities that we have that could have error rates that were zero. We could certainly reduce both the fraud and the error, and we could describe to the Committee how we plan to do that. We have to see these numbers in the context of the very large number of the total benefit expenditure of the country, which, in the bits we are talking about here are £105 billion. This is a lot of money. But I am not sitting here trying to justify to you that we estimate that £3 billion of it is covered by fraud and error.

**Q48 Mr Steinberg:** When I read the Report I got the impression that you did not even know whether that £3 billion was an accurate figure or not. It could be more, could it not?

**Sir Richard Mottram:** It could be more, but I do not think it is more.

**Q49 Mr Steinberg:** How do you know?

**Sir Richard Mottram:** As I say, we are continuously measuring—

**Q50 Mr Steinberg:** As the Chairman said, you are working from records that are over six years old anyway.

**Sir Richard Mottram:** Only in some cases. Perhaps I did not explain this clearly before. Those benefits that are most susceptible to fraud and error which are principally Income Support, Jobseeker’s Allowance, Pension Credit and Housing Benefit, we are measuring fraud and error on those benefits continuously, on a huge basis which the Comptroller and Auditor General has previously remarked is probably the most sophisticated and systematic approach of any country he knows about. The next biggest benefit that we have is Retirement Pension, which, for various reasons—it is a massive amount of money but it is not susceptible to fraud and error in the same way as these income-related benefits. You then come to Disability Living Allowance, where we have a review in hand, and then there are other benefits like Incapacity Benefits and so on. I agree that we should be periodically looking at those so that we can give the Committee confidence.

**Q51 Mr Steinberg:** You are an expert, are you not, because you talk so that I cannot get any more questions in! When Mr Anderson from the Social Fund was here a few weeks ago, he told us that they had lost a number of papers.

**Sir Richard Mottram:** Correct.

**Q52 Mr Steinberg:** But that this was only a blip. But then we read in the Report that you have lost a load of papers.

**Sir Richard Mottram:** That is because we are part of the same organisation.

**Q53 Mr Steinberg:** He said it was just the Social Fund. This is the—

**Sir Richard Mottram:** I think he was being examined on the Social Fund.

**Q54 Mr Steinberg:** I may be wrong, but I am quite certain that when he was asked the question he said, “Do not worry, it is only the Social Fund where we have lost papers.” You have lost medical assessment papers of individuals, so you do not even know whether the people are entitled to the benefit they are getting because you have lost their medical reports.

**Sir Richard Mottram:** At the margin we certainly do lose papers. As I explained, in the case that arises here where apparently—

**Q55 Mr Steinberg:** Incapacity Benefit. How can you pay Incapacity Benefit if you do not know whether they are ill or not?

**Sir Richard Mottram:** The reason I can pay them is that I do know they are ill because I do have the papers. What failed to do here was ensure the National Audit Office could have access to them within the timeframe they wanted. I quite recognise that that raised issues about how we liaise with the National Audit Office to make sure they can get their hands on the papers they want, when they want them. I would add that in the case of the papers referred to here, the National Audit Office were looking again at a set of papers we had already looked at, so we had taken a sample of Incapacity Benefit papers for our own purposes to satisfy

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ourselves that we were paying correctly; and then quite rightly the National Audit Office come along and they take a smaller sample to make sure they have confidence in what we are saying; and we should have been able to find those papers. I can assure you, we are thinking about how we can make sure we have that in the future.

**Mr Codling:** We have improved our systems and the recovery rate is now at the rate of only 1.3% not being found.

**Q56 Mr Steinberg:** That is great! I am being facetious. In relation to £650 million worth of error or fraud in Housing Benefit, is that because local authorities could not care less—it is not their money?

**Sir Richard Mottram:** Not in the least. The way in which the benefit is framed requires people to be honest about their circumstances, including their income and so on, and it is a very complicated benefit to be administered.

**Q57 Mr Steinberg:** : Could a system not be brought in where local authorities are penalised if they are found to be incompetent in paying out housing benefit?

**Sir Richard Mottram:** We encourage local authorities to perform better, and we can see plenty of evidence that is encouraging them to perform better, helping them to perform better, incentivising them to take action against fraud, for example, is better than berating them or punishing them, but they are also inspected, and the results of those inspections are taken very seriously by us and by them.

**Q58 Mr Steinberg:** Two things come out of this. If you and your officials were told that you had two years to put it right, or else; or local authorities had to do it right, or else, then I bet we would get results.

**Sir Richard Mottram:** We are getting results already. This is not the only thing we are responsible for. We are responsible for getting people into work; we are responsible for paying the money; and we are responsible for making various efficiency savings that the Government want us to make. We have to try and make the best of all those things together, and that is what my staff do.

**Q59 Jon Trickett:** On the question of debt and debt recovery, you estimate £9 billion overpaid, and you recovered half a billion—rounded it to the nearest half billion.

**Sir Richard Mottram:** It does not round everything to the nearest half billion.

**Q60 Jon Trickett:** It is convenient in this case they have rounded it to the nearest half billion, which leaves eight and a half billion unrecovered, rounding it to the nearest half billion. How much do you spend on debt recovery? What staff have you got and what do they cost?

**Mr Codling:** We have approximately 2,600 staff employed on debt recovery in the Department. I do not know that I have the actual cost of employment of those staff to hand.

**Q61 Jon Trickett:** For every pound you spend, how much do you recover?

**Mr Codling:** It costs us 23 pence per pound recovered in terms of our operations.

**Q62 Jon Trickett:** Do you think the more staff you employed the more you would recover? It is a ratio of four to one, is it?

**Mr Codling:** Yes. I think we have other improvements in train, which should increase recovery rather than throwing additional staff at it in the first instance. It is not necessarily the case that as of today if we employed more staff we would recover more debt.

**Q63 Jon Trickett:** It would be handy to get the cost of the debt recovery service as it is now.

**Sir Richard Mottram:** Around £48 million.

**Q64 Jon Trickett:** In order to recover £170–180 million a year?

**Sir Richard Mottram:** Yes. £190 million.

**Q65 Jon Trickett:** Why do you not spend more money and recover more debt?

**Mr Codling:** We can recover more debt by implementation of new systems.

**Q66 Jon Trickett:** You could do both. I just want you to answer this; it is a simple question.

**Sir Richard Mottram:** I will give you a simple answer. We are in the framework of a competing set of priorities, as we discussed earlier. We have an agreed set of resources, and the way in which those resources are deployed reflects the priorities we agreed with our Ministers.

**Q67 Jon Trickett:** Have you bid on the invest-to-save schemes to spend more money, because for every pound you are spending you are putting £4 back, which seems like a good deal to me? Have you bid for additional resources for that?

**Mr Codling:** We have been given a small amount of resource, £2 million (per annum) over three years, for a pilot scheme for private sector debt collection, and this is being used for off-benefit debt; that is our clients who are no longer in receipt of benefits.

**Q68 Jon Trickett:** Is the Department really saying that it is not a spending priority to recover £4 for every pound?

**Sir Richard Mottram:** I said it was one of our priorities, but it would not be the only one.

**Q69 Jon Trickett:** Surely you would look to fund additional enhancements in other areas if you were to recover £4 for every £1 that you spent—or presumably there would be a curve where at some point you would get less than £4, but still . . .

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**Mr Codling:** We are investing over £100 million in new arrangements for debt recovery.

**Q70 Jon Trickett:** Let us move to your new systems, because you are keen to move us on to that—and I think you are wriggling on this set of questions. How many of the 2,600 staff are due to be cut that are currently involved in debt recovery under the Department's economies?

**Mr Codling:** There are no staffing reductions in the debt recovery service emanating from the announcement last year in terms of—

**Q71 Jon Trickett:** In three years time will it be 2,500 or more debt recovery staff?

**Mr Codling:** That order of size, yes. Our numbers in debt recovery have moved around the 2,600–2,700 range. Essentially that staff is taking on more debt-recovery work as we centralise debt recovery from a previously inefficient system distributed around the country.

**Q72 Jon Trickett:** In terms of the balance in all the payments between that which is fraudulent and that which is done by error, either customer or staff, are you able to tell us how much recovered from debt is from fraud, and how much is customer or staffing error?

**Mr Codling:** It is basically on fraud and customer error as far as—

**Q73 Jon Trickett:** What about the balance between the two? The largest amount of money that is leaching out the system is from fraud, according to the figures we have here.

**Mr Codling:** We do not keep a record of the source of the debt recovery. We would have to imply that statistic from the total fraud and error—

**Q74 Jon Trickett:** You do not pursue fraud any more rigorously than you do customer error or staff error.

**Mr Codling:** No, we pursue customer over-payments, although the maximum recoverable for a case which arises from fraud is a little higher; it is £11 something per week, as opposed to the £8 something per week.

**Q75 Jon Trickett:** Given that fraud is villainy, wouldn't anybody looking at the Department expect you to be more rigorous and work harder on the fraud issue than on the customer error issue?

**Mr Codling:** We would be expecting to recover as much recoverable debt as we could.

**Q76 Jon Trickett:** In one case, you have a citizen out there who is an innocent victim of error, and you tell me you have pursued him or her as hard as somebody who has done it with villainous or criminal intent. You make no differentiation in your mind between an innocent citizen and one who is a criminal in effect.

**Mr Codling:** I think your question is, do we make a distinction in our systems rather than—

**Q77 Jon Trickett:** In terms of debt recovery do you pursue fraud harder? You have no idea on the balance between fraud and error.

**Mr Codling:** It is the same balance as the balance in our statistical estimates of fraud and error that Sir Richard was relating to.

**Q78 Jon Trickett:** So you do not pursue fraud any harder than you do error?

**Sir Richard Mottram:** We need to make two points clear. Customer error and customer fraud are different to official error, which is the point we made earlier; so there are different rules for getting back over-payments due to mistakes by our officials; so to that extent we are focusing much more on customer error and fraud; and then obviously debt recovery in relation to fraud is just one aspect of how we deal with fraud. No-one who was seeking to defraud the Department should assume that the only contact they will subsequently have is with debt recovery; they will face sanctions, prosecution and imprisonment.

**Q79 Jon Trickett:** I think you are wriggling on this.

**Sir Richard Mottram:** It is not disingenuous; it is fact.

**Mr Codling:** The maximum amount we can recover from a debtor is £11.20 for fraud cases and £8.40 for error cases, but those are for Income Support and Jobseeker's Allowance debt.

**Q80 Jon Trickett:** It would be helpful if the Committee could know the balance of debt recovered between fraud and error.

**Sir Richard Mottram:** We will do that.<sup>4</sup>

**Q81 Jon Trickett:** Under-payments are not measured in this Report. I will ask Sir John about this. If I am a person living in poverty, under-payment through error is a very serious matter indeed. It obviously does not cost the taxpayer any money, but you could argue the taxpayer is a beneficiary; but the individual citizen is suffering. You do not qualify the accounts or remark in the accounts on the question of under-payment, and that troubles me slightly. Can you tell me how that can be?

**Sir John Bourn:** We are concerned in the audit of the accounts with the total amount of error either way, but we have been concerned with the very point that you make, because we have pointed out in previous reports the duty of the Department to make sure that accurate payments are made to all the citizens who that deserve that; so we are conscious of the significance of making sure that people in difficulties get all they are entitled to.

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<sup>4</sup> *Note by Witness:* An overpayment is classified as fraud only where there is proven or admitted fraud; suspicion of fraud is classified as customer error. Similarly, other overpayments identified from anti fraud activity will also be classified as customer error unless the fraud is admitted or proven in a successful prosecution. In 2003–04, the total value of recoverable overpayments due to fraud was £37.6 million and, for customer errors, the comparable figure was £200.6 million. These figures exclude losses resulting from official error.

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**Q82 Jon Trickett:** Nobody would defraud by under-claiming, so the fraud element is missing, but could I assume that the errors made by customers and officials in terms of under-payments is likely to be of the same value as over-payments because it is purely random? Do we know what the scale is?

**Mr Cannon:** The under-payments are not significant compared to the estimated amount of overpayments.

**Q83 Jon Trickett:** Can I make the point to the NAO that I suppose everybody regards the amount of job cuts or savings or economies that are envisaged as extremely ambitious, and I wondered whether the NAO are monitoring this process across this Department and across Government, and whether it is envisaged that the PAC will be looking at the way in which this is implemented in the coming months and years.

**Sir John Bourn:** Yes.

**Q84 Mr Jenkins:** There is a small group facing you today, and other Members may be occupied in other pursuits, but I get the feeling that it does not make any difference what we do. No matter what you come before us and say or what recommendations we make, the improvements will be very marginal over a very, very long time.

**Sir Richard Mottram:** Do you mean in relation to the fact that the NAO are bringing forward the accounts qualification, or in relation to fraud and error?

**Q85 Mr Jenkins:** Fraud and error.

**Sir Richard Mottram:** We will come back to the morass on how we count it, but the position on fraud and error is that this Committee has been seriously concerned about it. The Government is seriously concerned about fraud and error, which is why we have targets. The frustration we have is that we are making progress in relation to fraud and error on Income Support and Jobseeker's Allowance, as described in this Report. What I find slightly frustrating but all too typical is that we never get any credit for what we are achieving. I have groups of people who have worked extremely hard to reduce fraud and error in Income Support and Jobseeker's Allowance, and we are ahead of the target which would have been considered, if we were not ahead of it, to be extremely demanding; and now I am told we are not doing it. We are focused on fraud and error across all these benefits, and we are reducing it; but we still have a very big number that we are tackling.

**Q86 Mr Jenkins:** I am glad to hear it, because you have told us that fraud has gone down from £2 billion to £1.5 billion, but unfortunately the errors have gone from one to 1.5.

**Sir Richard Mottram:** I did not say that actually, but I said if you rounded it.

**Q87 Mr Jenkins:** If you rounded it up. So what is this due to? Is it due to the increased complexity of the system; is it due to the people out there making errors, or is it because the incompetency of staff has gone up?

**Sir Richard Mottram:** I think it is due to a number of things. We need to differentiate between customer and official error. In relation to customer error, it is to do with the complexity of the system. Customer error has not actually changed significantly over recent years. In relation to official error, to be absolutely frank with the Committee—if you track official error in relation to these working-age benefits and in relation to what was the Income Guarantee and is now a Pension Credit, the then Benefits Agency had a massive priority to improve official error in relation to those benefits. We have lost some ground during the very, very major upheaval that has gone on in creating the new Department structured in a different way; and I am very happy to describe to the Committee how we propose to tackle that. If you want an honest discussion, that is the reality: official error has gone up because of organisational churn.

**Q88 Mr Jenkins:** I love your comment about a frank and honest discussion, and we should do that sometime.

**Sir Richard Mottram:** I always try and do that, Chairman.

**Q89 Mr Jenkins:** Today you have to answer certain areas, and one area I want to look at is in relation to Housing Benefit—£650 million overpaid by local authorities in a year. How can you imagine a situation where local authorities can overpay that amount and why would it occur? Have you had a chance to do an analysis on which was the best local authority and which was the worst local authority? Do we know what is underlying the worst-performing authority?

**Sir Richard Mottram:** The first thing to say is we have recently started measuring Housing Benefit fraud and error under a continuous review system, and the baseline estimate was £700 million. So the first year we measured it, it was £700 million, or 5.4% of the total paid out, which I quite agree is a very large sum. Our latest estimate is £600 million or 4.9% of the amount overpaid; so we can see that the focus that is put on trying to do something about Housing Benefit is hopefully having an effect. We could get into a very technical discussion about the range of these estimates. We are focused on working with Local Authorities on driving down Housing Benefit fraud and error. We have a target of reducing it by 25% over three years; and we will be there or thereabouts in achieving that target.

**Q90 Mr Jenkins:** What is the biggest problem?

**Sir Richard Mottram:** The biggest problem in relation to Housing Benefit is complexity.

**Q91 Mr Jenkins:** What is complex about it?

**Sir Richard Mottram:** Because your entitlement to it depends on a whole series of rules about your means and capital and so on, and the way to calculate it depends currently on the valuation of the property and so on.

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**Q92 Mr Jenkins:** It would not take a professional person long to develop a matrix where even semi-skilled staff can probably get a computer programme to get an answer at the end of the day. You are saying that if the figures are accurately entered, the figures should be accurate.

**Sir Richard Mottram:** We are talking about a number of things, are we not? In each case we are talking about fraud, customer error and official error; so in that particular case people can obviously seek to defraud the system for all sorts of reasons. They can lie about whether they are really living there, or they can lie about their circumstances, and all the things that are familiar to us all from reading the newspapers. They can make genuine mistakes in those areas, and then there is complexity in the way various benefits interrelate which can affect the way in which official error arises. Of course you are right; you need to have decision support systems, IT-based decision support systems to help the staff to get it right—and that is precisely what we do, working with local authorities. In relation to driving out fraud and customer error, you need data matching between all the data we have in our system—and that is precisely what we have, and increasingly it is used effectively by local authorities. You need risk-based techniques so that you can focus on those customers who are most vulnerable to error of various kinds, and fraud; which is precisely what we have introduced. There are strategies that we are working on, linked to the proposition that we are going to reduce fraud and error in Housing Benefit—I should be clear that that is local authorities with our help—by 25%, and we will do that there or thereabouts. I think that that does give the Committee confidence that we are deadly serious about trying to tackle this problem. I hope it does, anyway.

**Q93 Mr Jenkins:** Do you have confidence that the local authorities can deliver?

**Sir Richard Mottram:** I have confidence that most local authorities are absolutely committed to this, and we are working in a much more effective partnership with them than was the case in the past.

**Q94 Mr Jenkins:** You must have a league table of which authorities are doing well and which are not doing so well.

**Sir Richard Mottram:** We do.

**Q95 Mr Jenkins:** Are you going to give assistance to those authorities that are not doing well? You can check on their fraud mechanisms for instance.

**Sir Richard Mottram:** We can indeed, yes.

**Q96 Mr Jenkins:** And you can start chasing people.

**Sir Richard Mottram:** We do.

**Q97 Mr Jenkins:** You are looking at private debt collection—people who are back in work who owe benefits.

**Sir Richard Mottram:** Yes.

**Q98 Mr Jenkins:** It seems reasonable to use the private sector if they have more experience. You have a maximum limit of £11.20 a week for fraud cases.

**Sir Richard Mottram:** Yes. That will be in relation to people on benefits. We have rules about how the debt can be recovered, and who has the first claim on the debt—and we usually have the last. Our debt usually comes last, if you are a person on benefits, and then we have rules therefore about the rate of take in relation to it.

**Q99 Mr Jenkins:** What about individuals through an organised system, with their relationship with the number of people they have in accommodation, and they are claiming benefits from the local authority—

**Sir Richard Mottram:** Criminals, you mean?

**Q100 Mr Jenkins:** Yes, organised crime.

**Sir Richard Mottram:** Yes. Well, we do not have a limit of £11.20 for organised crime.

**Q101 Mr Jenkins:** When you get an organised crime individual, how do you tackle that?

**Sir Richard Mottram:** We take sanctions against them or we prosecute them, and we have powers under the Proceeds of Crime Act.

**Q102 Mr Jenkins:** How many actions have you taken under the Proceeds of Crime Act?

**Sir Richard Mottram:** I do not know. We can give it to you.<sup>5</sup>

**Q103 Mr Jenkins:** You have a range of sanctions like prosecution—

**Sir Richard Mottram:** We have.

**Q104 Mr Jenkins:** How many people have been prosecuted and how much money do we get back through the courts, of this £650 million?

**Sir Richard Mottram:** This is just about Housing Benefit? I have a statistic here which we will need to take away and turn into the number that you want: 80% of Local Authorities have an overpayment recovery rate of more than 50%, so they are getting back more than 50% of the overpayment they identified. We will work these numbers out. There is a number that is the amount we are recovering; then there is the number that we are getting through sanctions and prosecutions, and we will try and give you those numbers.

**Q105 Mr Jenkins:** Can you give the prosecution rate, the fraud rate, and the amount you get back through the process of fines?

**Sir Richard Mottram:** Yes.<sup>6</sup>

**Q106 Mr Jenkins:** You told the Chairman that you had a tremendous record in Government in relation to IT systems.

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<sup>5</sup> Ev 14

<sup>6</sup> Ev 14

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**Sir Richard Mottram:** I said we have a good record in Government.

**Q107 Mr Jenkins:** Being good does not necessarily mean all that much! How many computer projects have you now got at gateway with a red light or double red light?

**Sir Richard Mottram:** None, but we have a project which we would rate as red but which has not been rated as red by a gateway system, and that would be Child Support reform.

**Q108 Mr Davidson:** I accept that there have been changes and improvements, and I think there are moves in the right direction, but I wanted to ask you about the changes the Department that there have been, because clearly the creation of Jobcentre Plus and the pension service—I get the impression that a lot of the staff have more positive roles than in the past, and a lot of them seem almost happy. I am not sure that we should not be putting a stop to that! In those circumstances, given there are positive elements in the Department, this whole area of combating fraud and error is even more of a Cinderella service than it was before, because you did mention the re-shuffle that took place which resulted in a temporary increase in mistakes and so on.

**Sir Richard Mottram:** Yes, that is my view.

**Q109 Mr Davidson:** Was that because the re-shuffle was badly handled and eyes were taken off the ball? I cannot see why one necessarily follows from the other.

**Sir Richard Mottram:** It certainly is not the case that eyes have been taken off any of these balls. In the time I have been Permanent Secretary of the Department, which is coming up to three years, from virtually day one of my coming into this job I have been focused on these issues. We were having discussions in the Department, including with our Ministers, about fraud and error performance. The point that I was trying to make is that when we created Jobcentre Plus and The Pension Service in particular, that led to the reallocation of a number of staff who were working on benefit processing of various kinds, and quite a lot of organisational churn. Since that initial step was taken, the reality is that the Department has had successive waves of efficiency drives, which also have affected our staff. We are trying to achieve these demanding targets in circumstances where a lot of our work is being disrupted for a series of quite positive reasons, to do with introducing new techniques, better IT and so on—but we have had a lot of organisational change.

**Q110 Mr Davidson:** So the efficiency drives have made the Department more inefficient.

**Sir Richard Mottram:** They have made the Department more efficient, because on fraud and error we are making progress as a whole. What I said to you was, we felt we had gone a bit backwards on official error, which is not the same as going backwards on fraud and error.

**Q111 Mr Davidson:** I always struggle with estimates of how well you are doing, because I am never quite sure who to compare you to. Who do you compare yourselves to?

**Sir Richard Mottram:** That is quite difficult. If we compared ourselves to social security Departments, which is what we are talking about here in other countries—but John may have a different view we would come out badly from that comparison, because we have a record of measuring these issues, which is quite unusual. You could try comparing us to the private sector, but that is quite difficult.

**Q112 Mr Davidson:** Do you?

**Sir Richard Mottram:** We cannot really get data from the private sector.

**Q113 Mr Davidson:** Are you actually comparing yourselves with anybody? Do you do any benchmarking?

**Sir Richard Mottram:** I do not think we can benchmark ourselves in a straightforward way with anybody. I can think about that more.<sup>7</sup>

**Q114 Mr Davidson:** That would be helpful to us, clearly if you were performing much better than anybody else.

**Sir Richard Mottram:** I would not claim that, no.

**Q115 Mr Davidson:** In the 2000 Report we noted that errors were much more likely in London and the South East because of high turnover of staff and so on. Is that still the position?

**Sir Richard Mottram:** The position is that fraud and error in London and the South East is still higher but is converging with the national rate. Quite a lot of effort has been put in to improving performance, but we can give you the numbers.<sup>8</sup>

**Q116 Mr Davidson:** I can understand the point about errors, because of staff churn and so forth, but that does not necessarily explain fraud unless people in London and the South East are more dishonest. It is always useful to have your prejudices confirmed.

**Sir Richard Mottram:** I have to be very careful about this, but I think it would be true that fraud in London, and in some other big cities, is definitely likely to be a higher risk than some other places. We can give you these numbers. I will waste time if I try and turn them up. We have a big focus on driving down the level of fraud and error in London, and I think we have made some progress on converging it with the national average.

**Q117 Mr Davidson:** It would be helpful if we had that by region both by error and by fraud. In terms of organised gangs, which has already been touched on by my colleagues, is that largely a London phenomenon?

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<sup>7</sup> Ev 15

<sup>8</sup> Ev 15

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**Sir Richard Mottram:** I think so, yes.

**Q118 Mr Davidson:** That takes me on to data matching. Are you entirely satisfied that you are doing as much data matching as you would wish, or are there constraints on data matching that you would wish to do that are imposed elsewhere within the system?

**Sir Richard Mottram:** I think we are generally satisfied with the level of data matching. There are some issues about the timeliness of the data. We cannot talk about all this in public, but obviously we can supply material to the Committee in private. We have put a lot more effort into data matching and working with a number of other organisations, one of which is the obvious one we work with. I would say we have made a lot of progress on that.

**Q119 Mr Davidson:** There are no obvious blockages?

**Sir Richard Mottram:** The only blockages are around data protection, but they are not real blockages.

**Q120 Mr Davidson:** You indicated you would be able to tell us about ways in which you reduce complexity. I am not clear what flexibility you have to reduce complexity, given that so much of this is predetermined by legislation.

**Sir Richard Mottram:** Exactly. The flexibility we have for reducing complexity is to bring proposals usually to Parliament either through primary legislation or secondary legislation to reduce complexity. If you looked at a benefit like Pension Credit, you could see the way the rules are framed for that has helped, and that there is scope to do more. What struck me, as someone who came into this from a different branch of Government was the extent to which all of this is written down in fabulous detail in primary legislation, so it must be that Parliament wished to specify this in very tightly constraining ways. Some are very complex, and in the past we have not had a sufficient focus in the way we have generated proposals for legislation for the deliverability so to speak of the benefits that we were proposing to Parliament. I am not in any way—

**Q121 Mr Davidson:** I think that is helpful. How do we know that you have changed and that you are now putting up proposals for change that would decomplex, if such a word exists, the system?

**Sir Richard Mottram:** You can see evidence in the way in which we approach things like Pension Credit and the way in which we are seeking to simplify the rules around Housing Benefit. There is a discussion to be had, I think, about whether we could think in a much more careful way about, say, all the rules around capital and so on across all our benefits and tax credits and all those things. These are areas we should be looking at and they require us to take a bird's eye approach to the whole system, and that is what I hope we could talk about on another occasion.

**Q122 Mr Davidson:** In all of this we have tended always to focus on either errors by yourselves or rascals and villains robbing the system. I have quite a number of my constituents who have found themselves on occasion having been overpaid by yourselves through no fault of their own and then steps being taken to recover the money. People's expenditure usually expands in those circumstances to fill their income because they are living at the bottom. What is the way forward in those circumstances? The tax credit people have been writing off some arrears in some circumstances.

**Sir Richard Mottram:** We do do that, yes.

**Q123 Mr Davidson:** I do not come across many of them, I must confess. Maybe I ought to be nicer to you then and come along to these meetings. Can you clarify what your rules are for dealing with that?

**Sir Richard Mottram:** Our rules are that if it is a mistake that we have made we might ask for the money back but in normal circumstances we probably would not press it.

**Q124 Mr Davidson:** I understand that position but some of the people that I deal with would be extremely elderly and conscientious and if they get a letter from yourselves asking for this money back they would starve themselves to provide it virtually, whereas others who are perhaps of a more villainous bent would just force you to come and get it from them, and they would be rewarded and the others would not. There ought to be one rule all round, ought there not?

**Sir Richard Mottram:** I think we have discussed this in the Committee before. We are trying to balance an obligation to the taxpayer. If I did not try and recover this money I might face criticism "why did you not ask people to give it back?" I agree, there is that point and it is true about great swathes of life, is it not, that the good guys do hand the money back. We have rules and perhaps I will look at whether we are making this sufficiently clear. If you have spent the money and dispersed it in good faith, for example, we will not press for its recovery. I will look at how we express that.

**Q125 Mr Davidson:** That would be helpful because again there is the issue of stigma, that those who feel they owe you a debt will bust a gut to give you it back and those who know how the system works will know very quickly that they can get away without paying it back if they just decline to do so.

**Sir Richard Mottram:** But only on official error.

**Mr Davidson:** Yes, I accept that.

**Chairman:** A supplementary question from Mr Jenkins.

**Q126 Mr Jenkins:** There was one issue which I meant to bring up, but it is just as well to leave it to the end on this staff reduction programme. Obviously when you do a staff reduction programme you do a thorough analysis and risk assessment, you know which staff you must maintain in place because you do not want to lose the skills, *et cetera*,

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you offer it on that gateway programme to ensure it goes through the gateway, as any other project has a gateway.

**Sir Richard Mottram:** We have a gateway process for the whole programme and then we have a specific gateway process for each of the individual component parts, yes.

**Q127 Mr Jenkins:** Excellent. The question being what do you see as being your priority—is it in fact to maintain the pressure on what we consider to be a very important area and that is the reduction of the £3 billion loss through fraud and error or is your priority to meet the new staff targets?

**Sir Richard Mottram:** I have a set of PSA targets and I have budgetary provision that relates to the Government's view of the capacity of my Department to achieve those PSA targets, so when I am thinking with colleagues—and obviously ultimately these are matters for Ministers—about priorities, what I am saying is we have this set of PSA targets, we have a set of expectations about how we will improve or at least maintain the quality of our customer service to the millions and millions and millions of people we deal with every week, and we have to do that within this budget. And it is the budget and the outcome and output targets together which drive the way we run the Department. The answer to that is we have PSA targets about reducing fraud and error and we intend to achieve those. We have a set of efficiency programmes which will lead us, we believe, to be able to operate and meet the targets (not all of them but most of them because they are quite a challenge) within the budget, while by 2008 we will have 30,000 less staff. What we do not have is we chase one of those three things and that is an overriding single priority because that is not what Ministers asked me to do. They asked me to do all three things and all I would say is that it is not that easy to do it and therefore you do get issues, as we have discussed around official error, where organisational churn will produce problems for us.

**Q128 Mr Jenkins:** So if it meant that the target on fraud and error would be missed by reducing your staff, would you continue to reduce your staff or would you suggest to the Minister, “I would rather miss that target on staff but maintain the pressure on fraud and error”?

**Sir Richard Mottram:** I do not have a target on staff in that precise sense. I have a set of targets about fraud and error. I have a budget. I cannot exceed my budget unless the Government propose to give me more money and Parliament agrees. On my current plan I intend to meet my fraud and error targets and to achieve the staff reductions to which we are committed.

**Q129 Mr Jenkins:** Can I just press you one more time. If it meant that we were going to miss half a billion pounds, for instance, by saving £100,000 on staffing, would you be able to go back and say, “I think we should spend £100,000 on staffing to meet

the half a billion pound target”? There is always this tradeoff. We know that. I am just wondering about where the pressure is lying at the moment.

**Sir Richard Mottram:** If I could see a compelling case that spending more money would have a substantial benefit to the Exchequer I would make that case to Ministers, but I do not ultimately decide these things; Ministers and Parliament decide them.

**Q130 Chairman:** I would like to press you further on this because it seems crucial. You are going to try and save 30,000 staff. How much are you going to save per year, for instance?

**Sir Richard Mottram:** In what terms?

**Q131 Chairman:** In not having these 30,000 staff.

**Sir Richard Mottram:** I see. Our total efficiency savings, including the staff element, are about £1 billion a year. Our so-called Gershon savings are by 2008 about £1 billion.

**Q132 Chairman:** The point we are trying to put to you is instead of cutting these staff and making them redundant if you transferred them, for instance, to dealing with fraud and error you might make a significant impact on reducing fraud and error from the £3 billion situation?

**Sir Richard Mottram:** That might or might not be the case, Chairman, but I am just a civil servant. I do not determine the budget of my Department and I do not determine in isolation how many people we employ.

**Q133 Chairman:** Anyway it is a point that we could make in our Report if we chose to. For instance, if you look at page 22, paragraph 16, it says: “Debt centres record overpayments on systems that in the majority of individual cases do not provide a satisfactory audit trail from the original valuation of the debt through subsequent recoveries. Therefore it is not possible to confirm the existence and valuation of a significant number of customer overpayment debts.” If you were the Chief Executive Officer, say, of a building society or a bank and you are a major financial institution, do you really think, Sir Richard, you can get away with a situation like this where you do not actually know what people owe you?

**Sir Richard Mottram:** That would be quite a good example, I think, if we take ourselves back and link it up to the previous conversation. There are a number of reasons why we might not know precisely how many debts were being created and we might not be able to reconcile the debts once we had fed them into our system in a way which satisfied the National Audit Office when they were qualifying our accounts. Thinking about what the Department decided to do about that problem (because it certainly did not decide to do nothing) what the Department decided to do—and I claim no credit for this because it was decided before I arrived and has been carried forward by John Codling and other people—to think in a completely different way about how it would identify the debt and how it would then manage that debt in order to recover the maximum

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amount possible and to provide the audit trail. The way we have decided to do that is the way in which we have decided to reorganise—and this is a long answer Chairman and I apologise—and reconcile across the Department achieving much better performance with about a quarter less people. The way in which it has decided to do that is create a more focused organisation, to standardise the processes, and to put them in a small number of centres where all the people can be experts, to provide a set of commercial off-the-shelf software to help these people to manage this system and then to think about all the linkages between what they do and the accounting systems of the Department as a whole. If the Committee wanted to, I could go through each of the transformation programmes which we have as a Department which cover every one of our activities and I could illustrate to you that they are all based on the same set of principles. They are about clarity of organisation, standardising processes, getting scale, providing IT which is off the shelf largely, and linking everything up together much more effectively, including having a much better payments system. If we do all those things we think we can make substantial progress in our outputs while dramatically reducing our budget and reducing our staff. It is one of the biggest change programmes probably in Europe and therefore it is quite a tricky thing, but we are confident we can do it.

**Q134 Chairman:** You have had resource accounts in place for four years already, have you not, and still no satisfactory audit trail?

**Sir Richard Mottram:** Chairman, that is true, but if you look at what we have been trying to do, if we take that as an example, and the scale of the change that we have already made in relation to the debt management organisation, the software we have coming on stream, and all the other linkages we are seeking to create, then in two years' time or whatever we will have made substantial progress in that area.

**Mr Codling:** Those systems are due to be introduced next month.

**Chairman:** Thank you very much. Mr Trickett has a question.

**Q135 Jon Trickett:** It seems to me there are two flows of money in the Department. One is the staffing budget and the other is the amount of money that the staff hand out to the punters.

**Sir Richard Mottram:** Correct.

**Q136 Jon Trickett:** Part of the money that is going out to the punters is then overpaid and then you have a recovery service to go and collect the money back, some of which you might recover. Is it possible to wire money from the money recovered into staffing?

**Sir Richard Mottram:** No.

**Q137 Jon Trickett:** So therefore the Department is not incentivised to increase the establishment of those people working on debt recovery by the effectiveness and efficiency of the debt recovery service?

**Sir Richard Mottram:** When the Department's budget is agreed we have a discussion both with our Ministers and more broadly within the Government which is a discussion that points out, for example, that we have a Departmental expenditure limit of between £8 and £9 billion. It varies cross the years, right, and we are managing £105 billion worth of funds. We have a dialogue within Government, including with the Treasury, which points out the relationship between the amount of money the Government wishes to spend on our Departmental expenditure element and the likely impact this will have on the effective management of the £105 billion. If I have a frustration, Chairman, about the way our political system works, it is that the discussion about these things is really not that well informed. We have all this stuff about bureaucrats and civil servants and so on and so forth. The people who are working in my area are delivering services including the effective control of this £105 billion. We have that dialogue within Government. We can make a case to the Treasury in the spending review that if we had more Departmental expenditure provision then we think we could do this for you, we could do that for you, we could do the other thing for you. To give you an example, we could make a case that said if we invested more in staff on tackling Incapacity Benefit we would save money in the medium term on our yearly managed expenditure on that benefit. If we make proper provision for debt recovery we will get back money which will go to the Exchequer. We can have that dialogue with the Treasury and we do.

**Q138 Jon Trickett:** That was a long answer—

**Sir Richard Mottram:** It was trying to be helpful.

**Q139 Jon Trickett:** It was heartfelt. It probably helps you to get it off your chest.

**Sir Richard Mottram:** I do feel better for it, yes.

**Q140 Jon Trickett:** As you were talking, I was thinking to myself if I were the accounting officer in your position I would feel frustrated that we are going to throw huge resources to collect some of this money back because the C&AG has qualified our accounts and the Committee of Public Accounts have hauled us up in front of them. I am sure you do not think that but I might think it. The problem then is the harder I work to recover the money the faster the Treasury snaffles it back.

**Sir Richard Mottram:** That does not matter.

**Q141 Jon Trickett:** It does really because it strikes me that the Committee might recommend, for example, that the Treasury should take your target of, say, £180 million or £200 million a year recovery and they should incentivise you above that so that some of the money you recover proportionately could then be vired back into the staffing in order to

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pursue harder the more difficult to collect debts. That virement process is not in operation. You have to go and argue your case against a whole set of spending priorities, as you said in answer to my questions earlier. Have you ever considered the possibility of trying to structure things differently so that you were incentivised?

**Sir Richard Mottram:** I think there are two things here. One is we do have mechanisms through which we can have this dialogue. The first priority for us should be to get the way we pay the benefits right so that the debt recovery itself becomes a much smaller issue. That is the right thing we should do. Of course, we are obligated to come here and explain ourselves and so on but the fundamental reason why we should get it right is because that is the service we offer to customers. I think it was you that was making the point about underpayments as well as overpayments. So that should be our first priority. We can have a discussion with the Treasury in the public expenditure context, in the “invest to save” context about if we had a little bit more money here

could we not generate a benefit for the Exchequer in the short to medium term? We have such discussions.

**Q142 Jon Trickett:** Would you discourage this Committee from making such a recommendation to the Treasury?

**Sir Richard Mottram:** I would never ever encourage or discourage this Committee from doing anything; it is not my business.

**Q143 Chairman:** I hope, Sir Richard, you accept that we have not made any unwarranted attacks on bureaucrats this afternoon. All we have tried to do is question whether these efficiency gains forced on you by the Treasury are actually going to help you to root out fraud and error.

**Sir Richard Mottram:** The efficiency gains were not forced on me by the Treasury, Chairman; they were agreed by the Government.

**Chairman:** Of course. Sir Richard, thank you very much.

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 Supplementary memorandum submitted by the Department of Work and Pensions
 

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*Question 102 (Mr Jenkins): How many actions have you taken under the Proceeds of Crime Act (POCA)?*

In the financial year 2004–05 DWP secured recovery in 81 cases under POCA totalling £2,425,871.91. This amount is made up of cases where confiscation, compensation, voluntary repayments, forfeiture or costs have been made or ordered. (With confiscation orders the time to pay can normally be set anything from six months to 18 months.) Data for Housing Benefit prosecutions is not available as Local Authorities do not record the power under which a conviction is secured.

*Question 105 (Mr Jenkins): Can you give the prosecution rate, the fraud rate and the amount you get back through the process of fines?*

The last full year’s worth of data that we hold covers the financial year 2003–04.

#### PROSECUTION RATE

In 2003–04 Local Authorities applied 8,695 administrative penalties and cautions for benefits fraud, compared to the 2,600 recorded in 2001–02. In addition, Local Authorities secured 3,747 successful prosecutions for benefits fraud in 2003–04, compared to the 1,732 recorded in 2001–02.

In total these 12,442 sanctions or prosecutions amounted to around 8% of the 163,000 investigations of benefits fraud carried out by Local Authorities in 2003–04. This compares to an equivalent rate of around 2% in 2001–02.

#### FRAUD RATE

The latest estimate of the rate of fraud and error in Housing Benefit (*Fraud and Error in Housing Benefit—April 2002 to March 2004*) was published under National Statistics on 24 February 2005. The key findings are that:

- around £500 million (4.7%) of Housing Benefit expenditure within the scope of the Housing Benefit Review sample is estimated to have been overpaid due to fraud and error;
- by using a rough extrapolation, a further £100 million is estimated to have been overpaid in the Housing Benefit expenditure outside the scope of the Housing Benefit Review sample; and
- this gives an estimate of £600 million (4.9%) for total overpaid expenditure in Housing Benefit.

These results represent the first full year of data beyond our baseline estimates for 2002–03 (when we began our continuous measurement of Housing Benefit fraud and error). The un-rounded reduction in Housing Benefit fraud and error over this period was estimated to be £60 million.

## AMOUNTS RECOVERED

Local Authorities recovered £320 million of overpaid Housing Benefit expenditure in 2003–04.

*Question 113 (Mr Davidson): Are you actually comparing yourselves with anybody? Do you do any benchmarking?*

Benchmarking DWP's performance in containing and reducing losses in the benefit system arising from fraud and error is not straightforward, because there are no direct comparators. But the Department is pursuing the issue with a number of finance sector organisations and aims over time to produce a broad assessment of the position as far as comparability allows.

*Question 115 (Mr Davidson): In the 2000 Report we noted that errors were much more likely in London and the South East because of high turnover of staff and so on. Is that still the position?*

**Relative comparison between London, South East and national average MVFE—PSA estimates—%**

	2001–02			2002–03			2003–04		
	London	SE	National	London	SE	National	London	SE	National
Fraud	6.1	5.7	4.8	5.0	5.9	4.5	3.2	5.7	3.1
Customer Error	1.4	0.7	1.0	0.9	1.0	0.9	1.4	1.4	1.2
Official Error	2.4	1.9	1.8	3.1	2.4	1.9	2.7	2.9	2.2
Total	9.9	8.4	7.6	8.9	9.3	7.3	7.2	9.9	6.4

*Note:* A data quality adjustment in 2003–04 creates some difficulties in comparing the individual components of fraud, customer error and official error over time.

These results indicate that:

- Further improvement has been made in the London region.
- Overpayments in South East region have increased

**Relative comparison between London, South East and national average MVFE—PSA estimates—by share of monetary loss (overpayments) (£m) and percentage of the total loss**

	2002–03					2003–04				
	London		SE		National	London		SE		National
	£m	%	£m	%	£m	£m	%	£m	%	£m
Fraud	116	20	68	12	570	77	19	68	17	400
Customer Error	20	18	11	10	110	33	21	16	10	160
Official Error	71	28	28	11	250	65	22	35	12	290
Total	208	23	107	12	920	174	21	119	14	840

- The share of total national overpayments was similar in 2002–03 and 2003–04 for both London and the South East.
- During the same period the South East region did not receive the extra help that was being put into London. Their share of fraud overpayments increased and London's share of official error decreased.