House of Commons

Work and Pensions Committee

Fraud and error in the benefits system

Sixth Report of Session 2013–14

HC 1082

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Report, together with formal minutes relating to the report

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The Work and Pensions Committee

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The current staff of the Committee are Carol Oxborough (Clerk), Joanna Welham (Second Clerk), David Foster (Committee Media Adviser), James Clarke, (Committee Specialist), Emma Sawyer (Senior Committee Assistant), and Nathan Hug (Committee Support Assistant).

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Contents

Summary

THE GOVERNMENT'S APPROACH TO FRAUD AND ERROR REDUCTION

The Government has a good understanding of the fraud and error risks in the benefits system and has allocated considerable resources to fraud and error reduction; however, DWP's current target to reduce the monetary value of benefit overpayments to no more than 1.7% of total benefits expenditure by April 2015 is ambitious. Despite a "radical new approach" announced in 2010, there has been no statistically significant change in the overall levels of benefit fraud and error since 2005/06. The Government will need to build on the successful use of real-time information on earnings (RTI) and other innovative measures, aligned with the known risk factors in each benefit, if fraud and error is to be reduced further.

THE POTENTIAL IMPACTS OF UNIVERSAL CREDIT

In the longer term, Universal Credit (UC) has the potential to substantially reduce fraud and error, particularly via the use of RTI; its potential is demonstrated by the projected savings of £820 million in Tax Credits. However, further gains from RTI will depend on the successful implementation of UC and the development of the requisite IT systems, and in the meantime its extension to legacy benefits.

The highest potential savings lie in addressing fraud and error in housing costs support. However, there are uncertainties around DWP's current capability to administer the housing element of UC without *increased* risks of fraud and error. The Integrated Risk and Intelligence Service, or a similar system, will be vital in addressing this—a fully developed and tested system will need to be in place before full national implementation of UC.

HOUSING BENEFIT

Prior to the implementation of UC, Housing Benefit is of particular concern—the monetary value of Housing Benefit overpayments is more than double that of any other benefit. DWP should review and improve the Automated Transfer to Local Authority Systems, to make it easier and less resource-intensive for local authorities to access the DWP data needed to verify Housing Benefit claims.

DATA-SHARING AND USE OF NEW TECHNOLOGIES

Beyond its plans for UC, the Government should:

- Seek a secure and more consistent approach to accessing public and private sector data, including data held by payment systems operators, to flag up potential fraud and error; and

- Continue the Cabinet Office work to develop a government-wide identity verification system and consider the feasibility of safeguarding against identify fraud through the use of biometric identity verification.

SINGLE FRAUD INVESTIGATION SERVICE

A Single Fraud Investigation Service (SFIS), covering all social security benefits, whether currently administered by DWP, HMRC or local authorities, is, in principle, a good idea.

However, the timetable for implementation of SFIS must be aligned where practicable with that for UC—it makes no sense to rush the implementation of SFIS, ahead of responsibility for administering support for housing costs transferring from local authorities to DWP.

After the summer 2014 pilots, DWP should pause before national implementation of SFIS, to negotiate a national framework for the transfer of investigations staff from local authorities to DWP.

PUBLICATION OF FRAUD AND ERROR STATISTICS

Official data indicate nearly twice as much error (£2.3 billion of overpayments) as fraud (£1.2 billion) in the benefits system. Survey evidence suggests that the general public hugely overestimates the prevalence of benefit fraud. Whilst we acknowledge that the boundary between fraud and claimant error is not always clear, the Government should publish its summaries of estimated levels of fraud and error separately, to reduce the risk of confusion or conflation of statistics in media reporting and public perceptions of benefit fraud, and to emphasise the importance of actions to reduce error.

1   Introduction

1. In the text of this Report, our conclusions are set out in **bold** type and our recommendations, to which the Government is required to respond, are set out in ***bold italic*** type.

The scale of incorrectly paid benefits and Tax Credits

2. Total Department for Work and Pensions (DWP) social security benefits expenditure in 2012/13 was £166.6 billion. Official estimates indicate that some £5.1 billion of these benefit payments were incorrectly paid in error or as a result of fraud (3.0% of total expenditure). This means that 97.0% of benefits expenditure was correctly applied; excluding fraud (0.7% of total benefits expenditure) 97.7% was correctly applied. The majority of incorrect payments were overpayments—£3.5 billion (2.1% of total expenditure).

3. Around £2 billion of Tax Credits payments, which are currently administered by HM Revenue and Customs (HMRC), were overpaid in 2011/12 (the last year for which data are available). This represents 7.3% of total Tax Credits "finalised entitlements". Over the next several years Tax Credits will be integrated into Universal Credit, a new single benefit payment for which DWP is responsible.

4. While a significant proportion of overpayments are subsequently recovered—£900 million of overpaid DWP benefits were recovered in 2012/13, for example—and the overpayment estimates represent small proportions of total benefits and Tax Credits expenditure, they indicate very substantial sums of incorrectly applied public money and efforts should continue to reduce this as far as possible.[1]

Our inquiry and this Report

5. The Government believes that the introduction of Universal Credit (UC) will help to tackle fraud and error by reducing complexity in the benefits system and increasing the accuracy of payments through use of HMRC's real-time information on claimants' PAYE income. UC implementation is currently scheduled by DWP to be largely completed during 2016 and 2017 but we have recently expressed some doubt as to whether it can be implemented to that timescale, given the scale and complexity of the task.[2] We decided to conduct a short inquiry which sought to identify actions the Government could take to reduce fraud and error in the current system and in the future, as UC is developed and implemented.

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1   DWP, *Fraud and error in the Benefit System: 2012/13 Estimates (Great Britain)*, January 2014; and HMRC, *Child and Work Tax Credits: Error and Fraud Statistics 2011–12*, May 2013

2   Work and Pensions Committee, Fifth Report of Session 2013–14, *Universal Credit: monitoring DWP's performance in 2012–13*, HC 1209

6. We received 18 written submissions and held three oral evidence sessions. A full list of witnesses is set out at the end of this Report. While we are aware that incorrect benefit and Tax Credit payments—both underpayments and overpayments—often have deleterious effects on genuinely entitled claimants, the evidence we received focused on reducing losses to the Exchequer through fraud and error, and that is therefore the primary focus of our Report.

2   The scale of fraud and error and the Government's response

The three categories of incorrect benefit payments

7. In official DWP estimates, incorrect benefit payments are categorised into three groups:

- **Official error**, due to "inaction, delay or a mistaken assessment by DWP, a local authority or HMRC";

- **Claimant error**, in which "claimants make inadvertent mistakes with no fraudulent intent"; and

- **Fraud**, when claimants "deliberately seek to mislead DWP or local authorities which administer benefits on DWP's behalf to claim money to which they are not entitled."[3]

8. DWP's annual estimates for each type of incorrect payment are extrapolated from the results of a survey of a randomly selected sample of benefit claims in payment. The survey "combines data collated from DWP administrative systems and local authority owned Housing Benefit systems with data collected from the claimant during an interview." The estimates are produced to the high standard required of National Statistics; a random selection of results are re-checked by an independent team of experts, for example. [4]

9. DWP publishes a short statistical summary of its findings—four pages covering the 2012/13 estimates—which sets out the headline results broken down by the three incorrect payment types and the four core benefits which form the basis of DWP's estimates (Income Support; Jobseekers Allowance (JSA); Pension Credit; and Housing Benefit). Alongside the short summary it publishes a detailed statistical report which sets out trends in incorrect benefit payments; breaks down the data for each benefit further, for example by claimant age and gender; and provides methodological information and other background material.[5]

The scale of benefit fraud and error

10. Of the total £5.1 billion of incorrectly paid benefits in 2012/13, an estimated £1.6 billion was underpaid and £3.5 billion overpaid. Of the £3.5 billion of estimated overpayments: £700 million was due to official error (0.4% of total benefits expenditure); £1.6 billion was due to claimant error (0.9%); and £1.2 billion was due to fraud (0.7%).[6]

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3   NAO, *Department for Work and Pensions: 2012–13 Accounts, Report by the Comptroller and Auditor General*, December 2013, para 29

4   DWP, Fraud and Error in the Benefits System National Statistics: Quality Statement, accessed 15 April 2014

5   See Gov.uk web page, accessed 10 April 2014

6   DWP, *Fraud and error in the Benefit System: 2012/13 Estimates (Great Britain)*, January 2014

11. There is a large disparity between the official estimate of benefit fraud and the public perception. In 2013, an Ipsos Mori survey found that the general public believed that 24% of benefit payments are fraudulently claimed, some 34 times greater than the level indicated by the official statistics.[7]

Fraud and error risk factors

12. The main causes of fraud and error in the benefits system are well understood. The predominant causes are: **complexity**, for example where entitlement to one benefit is linked to that of others; and **means-testing** of claimants' income and financial assets. There are also well-known risks around accurate reporting of **household make-up**; entitlements for lone parents often differ from those for parents living with a partner, for example.[8]

13. The National Audit Office's (NAO's) analysis shows that incorrect reporting of income creates by far the greatest risk of incorrect payments, accounting for £907 million of overpayments (42%) across the four main benefits in 2012/13. The next three highest value factors in the four main benefits were:

- Claims made as a single person where the claimant is living with a partner (£268 million, 13%);

- Claims made by people subsequently found to be "abroad or untraceable" (£232 million, 11%); and

- Claims made on the basis of incorrectly reported savings (£176 million, 8%). [9]

14. The current system therefore relies, to a large extent, on claimants accurately, and in a timely fashion, informing the administering department, agency or authority of relevant changes in their circumstances. This is not easily achieved. In 2010 the Government concluded that:

> Many customers claim multiple benefits and credits, administered by more than one organisation. They have to report changes of circumstance to different parts of DWP, HMRC, as well as other government agencies and local authorities, and aren't always aware who needs to be told what information, and when.[10]

15. The Government has stated that the introduction of Universal Credit will reduce complexity in the benefits systems by integrating a number of benefits into one household payment calculated and administered by DWP. It believes that this "simplification", accompanied by the use of real-time information on earnings (RTI) drawn from HMRC

7   Ipsos MORI survey, _Perceptions are not reality: The top 10 we get wrong_, accessed 10 April 2014

8   DWP/HMRC, _Tackling fraud and error in the benefit and tax credits systems_, October 2010, chapter 2; NAO, _Department for Work and Pensions: 2012/13 Accounts, Report by the Comptroller and Auditor General_, December 2013, paras 28–47

9   NAO (FAE0020) figure 5

10   DWP/HMRC, _Tackling fraud and error in the benefit and tax credits systems_, October 2010, para 2.3; NAO, _Department for Work and Pensions: 2012/13 Accounts, Report by the Comptroller and Auditor General_, December 2013, paras 28–47

PAYE income tax data, will contribute significantly to reducing fraud and error (see chapter 3).

The DWP/HMRC joint fraud and error strategy

16. In October 2010 the Government published a joint DWP/HMRC strategy, setting out proposed actions to reduce fraud and error in benefits and Tax Credits. The strategy document acknowledged that levels of fraud and error had "plateaued" since 2005/06 (see key DWP and HMRC targets, below). It therefore identified the need for "new and radical" measures, in which it would take an "uncompromising" and "zero tolerance" approach.[11]

Apparent emphasis on benefit fraud

17. Given that official estimates indicate nearly twice as much error as fraud in the benefits system, we were concerned that the Government's approach announced in 2010 appeared to place the emphasis on addressing fraud. In the strategy document, Lord Freud, DWP Minister for Welfare Reform, and David Gauke MP, Exchequer Secretary to the Treasury and departmental Minister for HMRC, highlighted the Government's intentions to:

- **Employ private sector firms on a payment by results basis**, where appropriate, to ensure the full adoption of cutting-edge private sector fraud prevention techniques;

- **Redirect resource to the front line** to prevent fraud and error from entering the system in the first place, through enhanced checks and tougher sanctions for those even attempting to defraud;

- **Ensure that anti-fraud activity is protected from cuts**, including through the recruitment of over 200 new anti-fraud officers to sanction a further 10,000 fraudsters every year;

- **Remove the current silo-based approach to tackling fraud**, by creating new integrated cross-departmental data-matching and fraud investigation services (see Single Fraud Investigation Service, chapter 4);

- **Introduce a system for rewarding members of the public** who provide information that results in significant recovery of public funds;

- **Respond to the growing threat of organised fraud** through a new Identity Fraud Unit and far tougher sanctions for those involved;

- **Introduce a new mobile regional fraud taskforce** to investigate each and every claim in high fraud areas, to increase the certainty of detection;

- **Address the weakness of the current penalty regime** by abolishing cautions as a penalty for fraud, increasing asset seizures, and introducing far tougher one-strike and two-strike penalties, and a new three-strike rule;

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11   DWP/HMRC, *Tackling fraud and error in the benefit and tax credits systems*, October 2010, p 3

- Clean up nearly 2 million claims to remove error; and

- Increase the frontline support provided by "Big Society partners" to **help educate and support customers to get it right first time**.[12]

Of these ten measures, seven focus solely on benefit fraud, one is aimed at fraud and error generally, and only two appear to be specifically designed to combat error.

18. In response to our concerns that the Government's approach was putting insufficient emphasis on reducing error, Lord Freud told us that major initiatives to address official error included: simplification of the benefits system through the introduction of Universal Credit, including use of RTI; the Automated Transfer to Local Authority Systems, an IT system which since 2012 has provided local authorities with DWP data required to verify Housing Benefit claims (see chapter 3); and greater application of "data-sharing" (see chapter 5).[13] Mr Gauke stated that the Government's aim was to reduce losses to the Exchequer, whether through fraud or error. His view was that making a distinction between claimant error and fraud was not always straightforward; he highlighted that claimant error "covers a fairly broad spectrum in terms of the level of culpability on the part of the claimant".[14]

19. *Whilst we understand that making a distinction between claimant error and fraud is not always straightforward, we believe that DWP could be clearer about the official estimated level of benefit fraud. We therefore recommend that DWP publish, on separate days, discrete statistical summaries of its estimated rates of a) fraud and b) official and claimant error in the benefits system, alongside its more detailed report, to reduce the risk of confusion or conflation of these statistics in media reporting and public perceptions about benefit fraud, and to emphasise the importance of actions to reduce error as well as fraud.*

Reducing claimant error: clarity of claimant communications

20. In relation to claimant error, the largest of the three categories of incorrect payment, Lord Freud told us that DWP was trying, through marketing campaigns, to raise awareness amongst claimants of the importance of reporting relevant changes in circumstances and using a newly introduced £50 civil penalty in cases where people had inadvertently or negligently failed to do so.[15]

21. Lord Freud told us that a "core motivation" of the Universal Credit (UC) policy was to reduce the likelihood of claimant error by improving the clarity of DWP's communications with claimants, so that they better understood their benefit entitlements and their responsibility to report changes in circumstances. The Department recognised that "too

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12   DWP/HMRC, *Tackling fraud and error in the benefit and tax credits systems*, October 2010, pp 3–4

13   Q156

14   Q158

15   Q156.

much of our communication is too complex; there is too much jargon."[16] DWP was developing communications which use "plain English". Lord Freud stated that, once UC is developed and implemented, there would be "a clean, straightforward system, which both the claimant [and DWP staff] can understand".[17]

22. We wanted to know the extent to which the clarity of DWP's communication with claimants was being addressed within existing benefits as well as in the development of UC, particularly as we have recently expressed doubt about whether the implementation of UC can be achieved to the Government's planned timescale.[18] Lord Freud told us it was very difficult to achieve "coherent language" across DWP within the current system, as separate teams worked on the different benefits.[19]

23. **Improving the clarity of DWP's communication with claimants will be a crucial factor in reducing claimant error—the most prevalent cause of incorrect benefit payments. Clear communication can help to ensure that claimants understand fully their benefit entitlements and the importance of reporting relevant changes in their personal circumstances. We welcome work being done to improve the clarity of DWP's communication with claimants, as part of the development of Universal Credit. However, as we highlighted recently, considerable uncertainties remain around the timescale for developing Universal Credit, which cast some doubt on whether it will be fully implemented in 2017.**

24. *We recommend that, wherever feasible, DWP introduce updated claimant letters, using plain English, for its existing benefits, drawing on its learning from the development of Universal Credit communications. We also recommend that DWP give special consideration to the clarity of claimant letters in relation to Employment and Support Allowance, which will be the last of the current benefits to fully transfer into Universal Credit.*

Progress towards fraud and error reduction targets

25. DWP's targets for fraud and error reduction tend to be related to the overall level of overpayments as a proportion of total benefits expenditure. Its current target, set in the 2010 strategy, is to reduce estimated overpayments to no more than 1.7% by April 2015.[20]

26. The NAO highlighted that there has been no statistically significant change in overall levels of benefit fraud and error since 2005/06—the overpayment rate has remained between 2.0% and 2.2%.[21]

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16   Q245

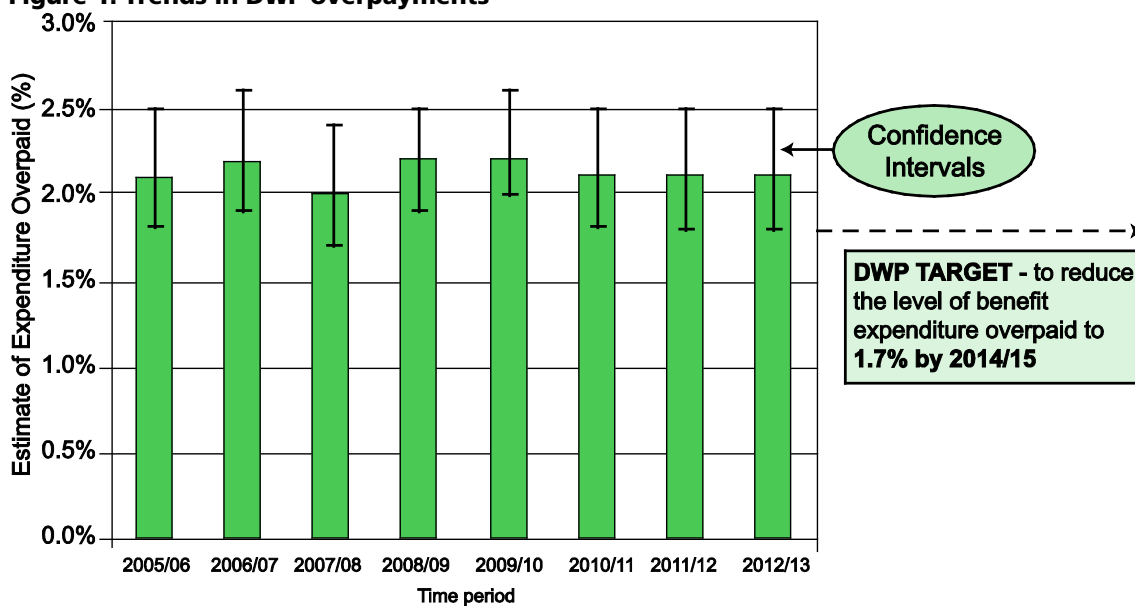17   Q156; Q245

18   Work and Pensions Committee, Fifth Report of Session 2013–14, *Universal Credit implementation: monitoring DWP's performance in 2012–13*, HC 1209

19   Q247

20   NAO, *Department for Work and Pensions: 2012–13, Report by the Comptroller and Auditor General*, December 2013, para 52

21   NAO (FAE0020) figure 2

Figure 1: Trends in DWP overpayments

Significant progress was made in the period from 2000/01 to 2005/06, during which the estimated overpayment rate fell from 3.2% to 2.1%; however, it should be noted that statistically significant change in the rate becomes more challenging as the rate falls.[22]

27. HMRC has made more recent progress in reducing Tax Credit fraud and error. The Tax Credit fraud and error rate of 7.3% in 2011/12, down from 8.1% in 2010/11, was the lowest since personal Tax Credits were introduced in 2003/04. However, HMRC missed its target, set in 2008, to reduce the rate to no more than 5% by April 2011.[23]

28. Although the NAO qualified its opinion on HMRC's most recent financial accounts because of the overall level of incorrect Tax Credits payments, its February 2013 report on Tax Credits fraud and error noted that HMRC's recent approach had been "successful" and "innovative" in some respects. It found that HMRC had developed around 40 separate measures since 2009 designed to address the six main risks of fraud and error in Tax Credits—inaccurate information about: partners; children; work and hours; childcare costs; income; and disabilities. It had achieved "notable" success in relation to three of the six risk categories: childcare costs; income; and disability, in which considerable gains had been made through a new approach to "data-sharing".[24] We consider whether the Government, and DWP in particular, could take a bolder approach to data-sharing, in chapter 5.

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22   DWP, Fraud and Error Measurement—Variance and Confidence Intervals, accessed 15 April 2014

23   NAO, *Tackling tax credits error and fraud*, February 2013, para 3

24   NAO, *HM Revenue & Customs 2012–13 Accounts: Report by the Comptroller and Auditor General*, July 2013, para 4.8; NAO, *Tackling tax credits error and fraud*, February 2013, paras 10; 2.15; 3.15

29. **DWP has a good understanding of the causes of incorrect benefit payments and has devoted considerable effort and resources to fraud and error reduction. However, fraud and error rates have plateaued since 2005/06, with the estimated overpayment rate remaining between 2.0% and 2.2% of overall benefits expenditure. DWP will only meet the target set in 2010, to reduce the estimated overpayment rate to no more than 1.7% by April 2015, if it employs innovative approaches which are aligned with the known risk factors associated with each benefit.**

3   Housing Benefit, Universal Credit and the role of local authorities

The administration of Housing Benefit

30. Housing Benefit (HB) helps claimants on low incomes, both in and out of work, to meet the cost of their rent. It is currently administered by local authorities on behalf of DWP but will become part of Universal Credit (see below). The main DWP-administered unemployment benefits—ESA, JSA and Income Support—can act as a "passport" to HB. Claimants of these benefits apply for HB via Jobcentre Plus (part of DWP). Claimants who are not receiving qualifying benefits apply directly to their local authority for HB and their entitlement is based on their income and the level of local rents.[25]

31. Excluding the State Pension, more is spent on HB than any other social security benefit—nearly £24 billion in 2012/13. The monetary value of HB overpayments due to fraud and error (£1.2 billion) is more than twice that of any of the other core benefits.[26]

The main Housing Benefit fraud and error risks

32. By far the largest risk of fraud and error in HB arises from the requirement for claimants accurately to report their income. Incorrect reporting of claimant income accounted for some 47% (£574 million) of HB fraud and error in 2012/13. Other notable categories of risk identified by the NAO include "passporting" issues i.e. where entitlement to HB is linked to entitlements to other benefits or services (part of a miscellaneous group of risks which made up 11% of overpayments, £134 million) and people claiming as a single person when they live with a partner (9%, £110 million).[27]

The Automated Transfer to Local Authority Systems

33. Since February 2012 local authorities have received daily updates of changes in benefit and Tax Credit entitlements via the Automated Transfer to Local Authority Systems (ATLAS) IT system, which DWP "hopes will lead to a significant reduction in fraud and error within locally administered benefits."[28]

34. The Local Government Association (LGA) told us that some local authorities had experienced considerable difficulties in processing the volume of data received via ATLAS. Councillor Sharon Taylor, Chair of the LGA Finance Panel, said that local authorities had to "wade through" a lot of information to find what they needed. The costs of "refining"

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25   Gov.uk web page [accessed 9 April 2014]

26   NAO [FAE0020] para 6

27   NAO [FAE0020] figure 5

28   NAO, *Report by the Comptroller and Auditor General: Department for Work and Pensions 2012–13 Accounts*, December 2013, para 45

the ATLAS data were currently borne by local authorities. The LGA argued that local authorities should be financially incentivised by DWP to carry out this work.[29]

35. Mike Driver, DWP's Director General of Finance, told us that this problem had not been brought to his attention. He accepted that ATLAS provided a lot of data but he highlighted that the system had been designed to notify local authorities automatically of all relevant changes in benefit and Tax Credit entitlements. He said that ATLAS was a relatively new system and as such was likely to develop further. DWP would consider reducing the volume of data local authorities receive through ATLAS, "if that was the solution."

36. In relation to the costs to local authorities of analysing ATLAS data, DWP noted that there was already a financial incentive for local authorities to use ATLAS data to reduce HB fraud. Mike Driver explained that, if a HB claim is found to be fraudulent, DWP only reimburses the local authority 40% of the money paid out to the claimant. If local authorities subsequently pursue and recover money paid out in relation to a fraudulent claim, they can claim 100% of the recovered money from DWP, in addition to the initial subsidy paid to them. However, he accepted that whether or not this system was sufficient to incentivise local authorities to allocate the necessary resources to analysing ATLAS data, in addition to committing resources to other activities to address fraud and error, was "another matter".[30]

37. *We welcome the introduction of the Automated Transfer to Local Authority Systems (ATLAS). We recommend that DWP and appropriate representatives from local government conduct a joint review of ATLAS, including the level of resources needed to analyse ATLAS data, with a view to enabling local authorities to access the DWP data they need to verify Housing Benefit claims more easily. This review should be conducted and improvements implemented before the end of 2014.*

Addressing fraud and error in Universal Credit

38. As Universal Credit (UC) rolls out, HB and five out-of-work benefits and in-work Tax Credits will cease to be paid separately to claimants: they will be incorporated into a single household UC payment which, for the majority of claimants, will be paid directly to them each month. HB will no longer be administered by local authorities; support for housing costs will be centrally administered by DWP.[31]

39. The principal aim of UC is to create a single system of in-work and out-of-work benefits, with payments which taper off as claimants' earnings rise, in a way which more

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29   Q43

30   Qq175–80

31   Work and Pensions Committee, Fourth Report of Session 2013–14, *Support for housing costs in the reformed welfare system*, HC 720, chapter 8

clearly encourages claimants to enter, and progress in, employment.[32] UC is intended to be a *simpler* system. As the NAO has noted, DWP hopes that:

> […] in the long term, this streamlining of benefit will remove or reduce some of the current complexities around benefit entitlement, verification of claimant circumstances and administrative requirements that can increase opportunities for fraud and error.[33]

Implementation timetable

40. We have been consistently supportive of the policy intentions of UC, but we have also noted delays in the development of the requisite IT and the consequent slow pace of implementation. While DWP still intends largely to complete national implementation of UC in 2017 as originally planned, the build-up of UC claims has proceeded at a far slower pace than originally anticipated; national implementation was originally scheduled for October 2013 but only 5,250 people were claiming UC by the end of January 2014.[34] When we took evidence for this inquiry no detailed published plans were available for extending implementation beyond the 10 "Pathfinder" areas, the first four of which began in the North West of England during 2013. This led us to conclude in our Report on Universal Credit in April 2014 that "it is difficult to envisage how the volumes required to meet the most recent timetable are to be achieved."[35] On 29 April DWP announced that from June 2014 UC will be implemented gradually in more areas of the North West, until all 90 Jobcentres in the region are accepting new UC claims. The announcement did not include any timetable for the completion of this phase of UC implementation.[36]

41. Our recent Report also highlighted the NAO's view that fundamental uncertainties around the IT solution persist, including: "how it will work; when it will be ready; how much it will cost; and who will do the work to develop and build it."[37] Rushing the implementation would have risked creating significant issues with fraud and error and so we agreed with the use of pilots and pathfinder areas. This inquiry could not therefore consider the detail of how UC will work in practice in relation to tackling fraud and error. Instead, we examined, at a more theoretical level, the opportunities for UC to reduce the main fraud and error risks and considered the actions DWP needs to take to protect the system.

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32   Work and Pensions Committee, Third Report of Session 2012–13, *Universal Credit implementation: meeting the needs of vulnerable claimants*, HC 576, paras 5; 135

33   NAO, *Department for Work and Pensions: 2012–13, Report by the Comptroller and Auditor General*, December 2013, para 5

34   DWP, *Universal Credit – Experimental official statistics to January 2014,* April 2014

35   Work and Pensions Committee, Fifth Report of Session 2013–14, *Universal Credit implementation: monitoring DWP's performance in 2012–13*, HC 1209, para 30

36   DWP press release, 29 April 2014, "Universal Credit: First year of welfare transformation and North West next steps"

37   Work and Pensions Committee, Fifth Report of Session 2013–14, *Universal Credit implementation: monitoring DWP's performance in 2012–13*, HC 1209, para 45

Real-time information on earnings

42. As noted in chapter 2, and above in relation to HB, by far the largest risk of incorrect benefit payments is related to the requirement for working claimants accurately to report their earnings.

43. UC will utilise RTI, a new system which has been developed by HMRC to facilitate the collection of PAYE income tax. HMRC's RTI system receives data from employers about employees' PAYE income and tax, National Insurance and other deductions. Under UC, this information is automatically transferred to DWP, and used to calculate monthly benefit entitlements from this accurate and up-to-date earnings information.[38]

44. DWP stated that using RTI has the potential to:

• Prevent fraud and error on new claims before payments are issued;

• Prevent fraud and error from entering the system when there is a change of circumstances;

• Detect existing fraud and error for undeclared or declared earnings and non-state pensions; and

• Create efficiencies in the payment, referral and evidence gathering processes.[39]

45. Most witnesses acknowledged the considerable potential benefits of RTI, but some also pointed out that the system will not detect earnings incorrectly declared by self-employed people or those working in the cash economy. The Local Authority Investigation Officers Group (LAIOG) was concerned that RTI might even increase the number of people choosing to work for "[undeclared] cash in hand".[40]

46. Mike Driver confirmed that the Government's 2010 forecast, that RTI would produce £400 million of savings per annum through reduced benefit fraud and error, remained unchanged. He acknowledged that this figure was largely dependent on the full national implementation of UC; however, he also noted that DWP was exploring whether RTI could be applied to existing benefits before they are integrated into UC.[41] The day after giving oral evidence to our inquiry, DWP announced that it planned to use RTI to combat JSA fraud.[42]

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38   Work and Pensions Committee, Third Report of Session 2012–13, *Universal Credit implementation: meeting the needs of vulnerable claimants*, HC 576, paras 142–9

39   DWP (FAE0013), paras 47–8

40   LAIOG (FAE0008)

41   Q217

42   "New measures to protect the integrity of the benefits system", DWP press release, 8 April 2014

47. Mr Gauke told us that RTI was already being used to verify Tax Credits renewals and had produced a "very quick return". HMRC expected to achieve savings of £820 million between 2014/15 and 2016/17 by using RTI in this way.[43]

48. *By utilising real-time information (RTI) on PAYE income, Universal Credit has the potential to substantially reduce incorrect benefit payments due to inaccurate or late reporting of claimants' earnings; and it is projected to produce significant savings in Tax Credits. However, RTI cannot provide the complete solution, as it will not apply to a significant proportion of claimants who are paid outside the PAYE system, including the self-employed. Moreover, the full gains of RTI in relation to reducing benefit fraud and error are largely dependent on the successful national implementation of Universal Credit, which is at least three years away by the most optimistic schedule. We therefore welcome steps to apply RTI to existing benefits where possible and recommend that DWP and HMRC consider methods to automate this process.*

The Identity Assurance programme

49. The Government's original intention was that UC would be "digital by default"—the assumption was that claims would be made and managed online.[44] One of the key areas of uncertainty in the IT is the development of a sufficiently robust system for verifying claimants' identities online. The NAO reported in September 2013 that the system the Government intended to develop to ensure that "all digital public service users can assert their identities safely, securely and simply", the Identity Assurance programme (IDA), was "missing" from the UC Pathfinder in June 2013.[45]

50. In December 2013, before we launched this inquiry, DWP indicated that IDA was at a very early stage of development. Howard Shiplee, DWP's Senior Responsible Officer for UC, told us that it would take "some considerable time to get to a totally online system".[46]

Potential for biometric systems

51. Nuance Communications, which delivered a voice-based identity verification system used in the Australian public sector, believed that traditional systems were often both "time consuming and inconvenient" to claimants and "vulnerable to fraud". As far as Nuance Communications was aware, the IDA programme being developed for UC would rely on people providing personal information over the telephone and online. Its view was that systems such as these can also facilitate identity fraud.[47] CIFAS, a statutory anti-fraud body,

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43   Q218

44   Work and Pensions Committee, Third Report of Session 2012–13, *Universal Credit implementation: meeting the needs of vulnerable claimants*, HC 576, paras 17–20

45   NAO, *Universal Credit: Early progress*, HC 621, September 2013, figure 10

46   Oral evidence taken on 9 December 2013, Q31

47   Nuance Communications (FAE0014) para 4

reported that in 80% of confirmed identity theft fraud cases, personal data of this kind had been obtained from the internet.[48]

52. Nuance Communications argued that a voice-based system could both improve customer service and reduce the risk of fraud in the UK benefits system. It explained how the system worked in Australia:

> When a citizen first enrols in the system, they can opt for a voice sample to be collected, and a voice print to be produced and stored for future use. The next time the citizen contacts the organisation, perhaps wishing to chase up a payment, a second voice sample is collected and compared to the stored voice print to confirm the person is who they say they are. If needed, this comparison can be completed within a few seconds.

Nuance Communications claimed that the system was "highly accurate" and "impossible to impersonate or reverse engineer".[49]

53. Other private sector witnesses were supportive of biometric systems of this kind but stressed that ID verification systems were not primarily anti-fraud measures; fraud protection was merely a positive by-product.[50] Sean Duffield of Nuance Communications acknowledged that biometric systems were "not the be all and end all" but could be "part of the overall solution" to reducing fraud in the system.[51]

54. Lord Freud told us that DWP had piloted a biometric system "a few years ago" but that the Department "did not find it hugely helpful". He said that responsibility for the development of IDA had now passed to the Cabinet Office, which was exploring the possibility of an identity verification system which could be applied "across all of Government." DWP would "look to use that system for UC." We were not given any details about how the Cabinet Office system might work or the timescale for its implementation.[52]

55. *We believe that in the longer term biometric identity systems could have an important role to play in identity verification processes across government. We recommend that the Government continue the Cabinet Office work to explore a government-wide system; and evaluate the benefits of biometric identity verification in the social security system and more widely across public services, including by examining the effectiveness of the voice-recognition system currently used in Australia.*

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48   Q127

49   Nuance Communications (FAE0014) para 14

50   Q125 [Simon Dukes and Jan Smith]

51   Q122

52   Qq206–7

The Integrated Risk and Intelligence Service

56. The LGA believed that, as support for housing costs is integrated into UC, DWP will need access to a range of information currently held by local authorities, on individual properties and the composition of households within those properties. It was concerned that DWP would be unable to replicate the cross-checking of data currently undertaken within and between local authorities in verifying HB claims.

57. Councillor Taylor explained that local authorities could cross-check claims "across the whole raft of council activities, so everything from Blue Badge car parking, Council Tax support or tenancy."[53] The LGA and LAIOG were concerned that, without automated access to these types of data, UC might be more vulnerable to fraud and error, in relation to housings costs, than HB.[54]

58. In April 2013 the Communities and Local Government Committee expressed similar concerns that, without the ability to cross-check local authority data, UC could be vulnerable to fraudulent multiple housing claims. In response, the Government stated that an IT system called Integrated Risk and Intelligence Service (IRIS) would act as a central data hub. IRIS would have access to a "huge number" of databases. It would be able to cross-check data and provide similar safeguards against fraudulent claims to those introduced by local authorities administering the HB system.[55]

59. The NAO found that IRIS, like IDA, was "missing" from the UC Pathfinder in June 2013.[56] In oral evidence on 17 March 2014 the LGA and LAIOG said that they were not aware that it had yet been developed or whether it was in use in any of the UC Pathfinder areas.[57]

60. Lord Freud told us that DWP was using a "relatively straightforward data-matching process" in the UC Pathfinder. He insisted that, once UC is fully implemented, DWP will use an automated system to cross-check claims by a "very similar process" to that used by local authorities in relation to HB. He told us that IRIS was still in development and reported that it was now DWP's intention to employ "IRIS analysts" to "watch processes go through". However, it was not clear how or when DWP would achieve automated access to the range of property data currently available to local authorities.[58]

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53   Q38

54   Qq59–64 [Debbie Gibbons and Cllr Taylor]

55   Communities and Local Government Committee, Ninth Report of Session 2012–13, *Implementation of welfare reform by local authorities*, HC 833, paras 123; 126; Q253 [Lord Freud]

56   NAO, *Universal Credit: Early progress*, HC 621, September 2013, figure 10

57   Q57 [Debbie Gibbons and Mick Hopkins]; Q60 [Cllr Taylor]

58   Qq181–4

61. **Local authorities expressed concerns about DWP's current capability to administer the housing element of Universal Credit with the same level of safeguards which local authorities are currently able to apply to Housing Benefit administration, and therefore without increased risks of fraud and error. The Integrated Risk and Intelligence Service (IRIS), or a similar system to allow DWP to cross-check claims against the range of property data held by local authorities, will be vital. Such a system will need to be fully developed and tested before national implementation of Universal Credit commences.**

4   The Single Fraud Investigation Service

Policy intent

62. As noted in chapter 2, the 2010 joint DWP/HMRC fraud and error strategy proposed a Single Fraud Investigation Service (SFIS), to address fraud across all benefits and Tax Credits, whether currently administered by DWP, HMRC or local authorities. The main objective of the policy was to ensure that all types of social security and Tax Credits fraud would be investigated according to a single set of guidance and priorities. It was also intended to increase activities to combat Tax Credits fraud, as most of HMRC's anti-fraud resources were devoted to taxation.[59]

63. There was widespread support amongst witnesses for the principle of a SFIS. For example, LAIOG told us that it was a "very laudable and understandable goal" and a "great idea". Derby City Council believed that in was "in theory, a common sense idea."[60]

Implementation timetable

64. The Government originally intended to establish SFIS from April 2011 but this was delayed in order that the new service would be "more in line with the introduction of Universal Credit".[61] Provisions to allow for the creation of SFIS were included in the Welfare Reform Act 2012 and its establishment was announced in the 2013 Autumn Statement.[62]

65. DWP ran five SFIS pilots in 2013 in: Corby Borough Council; Glasgow City Council; London Borough of Hillingdon; Wrexham Council; and Oldham (a UC Pathfinder area). DWP's conclusion from the pilots was that SFIS would "deliver greater benefits if it could be implemented as a single organisation within DWP."[63]

66. DWP told us that a "small number" of DWP-run SFIS sites will be operational in "summer 2014". Full national implementation is planned to take place from October 2014 to March 2016.[64]

Local authority and trade union concerns

67. The LGA questioned the need to establish SFIS. Councillor Taylor told us that she did not understand why it was necessary to "fix a system that was not broken". She highlighted the relatively low level of estimated fraud in relation to HB (1.3%) compared to that in

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59   DWP/HMRC, *Tackling fraud and error in the benefit and tax credits systems*, October 2010, para 6.3

60   Derby City Council (FAE0002) para 3; LAIOG (FAE0008)

61   DWP, *Single Fraud Investigation Service: Impact Assessment*, October 2011, para 3

62   DWP (FAE0013) para 30

63   DWP, *Single Fraud Investigation Service* [accessed 14 April 2014]

64   DWP (FAE0013) para 31

DWP-administered JSA (2.9%), as evidence of local authorities' relatively successful record on addressing benefit fraud.[65]

68. The LGA and LAIOG both believed that SFIS, in the form proposed by the Government, would not achieve one of its main aims: to address multiple frauds together in single investigations and prosecutions. LAIOG pointed out that fraud against localised Council Tax Support schemes and other types of fraud against local authority services, such as social housing tenancies and Blue Badge disabled parking, were considered "out of scope" of SFIS.[66]

Implementation timetable

69. Another major concern was that, under the Government's current plans, SFIS will be rolled out nationally ahead of Universal Credit (UC); therefore full responsibility for addressing the range of social security benefit fraud will transfer to DWP before it takes charge of support for housing costs. The concern is that a DWP-run SFIS will be less able than local authorities to investigate HB fraud in the interim period.[67] SFIS implementation is scheduled to be completed in March 2016, while UC national implementation is due to take place during 2016 and 2017.[68]

70. Lord Freud did not believe that the SFIS implementation timetable would significantly increase vulnerabilities to HB fraud because SFIS and UC would be rolled out on "fairly similar timescales". However, Mike Driver told us that DWP was "cognisant of the risks" and the need to be "careful how we implement."[69]

Transfer of staff

71. UNISON, the trade union which represents local authority staff, told us that its understanding in 2011 was that, following the introduction of SFIS, local authority staff would "remain employed by local authorities but work under DWP policy and procedures." It believes that DWP's decision, following the 2013 pilots, to locate SFIS within DWP and transfer local authority investigations staff into the Department, was reached before a proper evaluation had been conducted and without sufficient consultation.[70] LAIOG's view was that the 2013 pilots "demonstrated that a local authority-led joint investigation approach is the most effective at addressing overall fraud."[71]

72. UNISON has a number of concerns about the transfer of staff into DWP, including:

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65   Q72

66   LAIOG (FAE0008); Q73 [Mick Hopkins]

67   See, for example, LAIOG (FAE0008); LGA (FAE0010); COSLA (FAE0011)

68   Work and Pensions Committee, Fifth Report of Session 2013–14, *Universal Credit implementation: monitoring DWP's performance in 2012–13*, HC 1209, chapter 2

69   Q197

70   UNISON (FAE0019)

71   LAIOG (FAE0008)

- That the Government has deemed that the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) will not apply (TUPE Regulations ensure that, when a business or public service transfers from one organisation to another, employees transfer to the new employer under identical terms and conditions of employment);

- That local authorities might lose experienced investigators to SFIS, leaving them more vulnerable to the other types of fraud that will remain their responsibility; and

- That the Government had not entered into negotiations with local authorities and the relevant trade unions about a national framework for the transfer of staff and will instead enter into separate negotiations with each local authority as SFIS rolls out. UNISON argued that this process would be "extraordinarily inefficient".[72]

73. Lord Freud confirmed that around 790 staff in 380 local authorities would be "in scope for the transfer".[73] Mike Driver believed that concerns about the implementation process had mainly been expressed by smaller district councils, which might have only one member of staff to cover the range of fraud investigations.[74]

74. DWP recently confirmed that it would transfer staff "by way of Section 38 of the Employment Relations Act 1999".[75] Lord Freud told us that, while TUPE would therefore not apply, transfers would take place under the Cabinet Office Standards of Practice. His view was that, in practice, this would mean that DWP would "step into the shoes of the previous employers" and honour the terms and conditions of local authority staff's existing contracts of employment. When we put it to him that, despite DWP's reassurances, UNISON still had concerns that terms and conditions of employment might not be *identical*, because TUPE had been deemed not to apply, Lord Freud undertook to "look at" the relevant draft Regulations.[76]

75. *The Single Fraud Investigation Service (SFIS) is, in principle, a good idea. However, it makes no sense to roll out SFIS nationally, ahead of the national implementation of Universal Credit, while local authorities retain responsibility for Housing Benefit. We recommend that the implementation of SFIS be aligned where practicable with the expansion of the Universal Credit Pathfinder areas and with national implementation of Universal Credit. We further recommend that, following the summer 2014 SFIS pilots, DWP pause implementation of SFIS to enter into negotiations with local government and the relevant trade unions about a national framework for the transfer of local authority fraud investigations staff into DWP.*

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72   UNISON ([FAE0019](#)) para 23

73   [Q192](#)

74   [Q190](#)

75   HC Deb, 25 March 2014, [col 229W](#)

76   [Q198](#)

5 Data-sharing

Current uses

76. As mentioned in chapter 2, HMRC used a data-sharing approach to reduce fraud and error in relation to the disability elements of Tax Credits. It cross-matched information held for Tax Credit claims in payment against DWP's disability benefit data. It also used the approach to cross-check new claims and prevent fraud and error from entering its system in the first place. Data-sharing in this way produced a 72% reduction in the monetary value of fraud and error in disability-related Tax Credits, from £145 million in 2008/09 to £40 million in 2010/11.[77]

77. There are also some recent examples of the Government using *private sector* data to help address fraud and error in the benefits system. For example, the 2010 DWP/HMRC joint strategy document set out plans to make greater use of credit reference agency (CRA) data.[78] In December 2011 the Government signed a contract with Experian to supply CRA data to DWP and HMRC. In February 2012, the cross-government Fraud, Error and Debt Taskforce stated that the approach was "transforming" the approach to reducing benefits and Tax Credits fraud and error; it had already generated savings of £17 million.[79]

78. In oral evidence, Ministers and officials explained how this type of data is currently used. Lord Freud told us that it could highlight spending patterns which "look a bit odd", given a claimant's declared income.[80] HMRC told us that it used CRA data primarily to detect whether claimants might be living with an undeclared partner.[81] Mr Gauke reported that HMRC's partnerships with credit reference agencies had resulted in around £549 million of savings from reduced Tax Credits fraud and error.[82]

Calls for a bolder government approach

79. A number of witnesses believed that the Government, and DWP in particular, could take a bolder approach to accessing public and private sector data, to verify information supplied by claimants.[83]

80. Callcredit Information Group, a credit reference agency and private sector fraud protection company, believed that DWP had demonstrated a conservative and over-cautious approach which had sometimes resulted in "inertia". It described its experience of setting up an information hub through which local authorities could share data between themselves and cross-check information supplied by HB claimants. It cited DWP's

77   NAO, *Tackling tax credits error and fraud*, February 2013, para 7

78   DWP/HMRC, *Tackling fraud and error in the benefit and tax credits systems*, October 2010, paras 8–10

79   HM Government, *Tackling Fraud and Error in the Government: A Report of the Fraud, Error and Debt Taskforce*, February 2012, p 23

80   Q234

81   Q234 [Nick Lodge]

82   Q234

83   See, for example, CIFAS (FAE0004); Callcredit Information Group (FAE0007); and Vocalink (FAE0016)

concerns over data protection as the primary reason for a two-year delay in implementation.[84]

Payment systems data

81. Vocalink, which operates payment clearing systems and processes all automated payments in the UK, including Bacs direct debits and direct credits, believed that an opportunity existed for DWP to reduce losses to the Exchequer through fraud and error by accessing data on payments. Different types of automated payment are coded or referenced differently. Therefore Vocalink has access to information which could alert DWP to potentially incorrect payments. It suggested that an alert system could be established which exploited the delay, in systems such as Bacs, between a payment being entered and the funds reaching the recipient's bank account. Vocalink suggested that the following types of anomaly could be flagged:

- A payroll payment due to enter the same individual account as a JSA payment;

- A payment due to enter an account which has previously received benefit payments relating to a different individual;

- Two separate benefit payments, with inconsistent entitlements, due to enter the same account; or

- Other "suspicious activity" linked to an account, such as "regular overseas ATM withdrawals or third-party accounts into which other accounts also feed."

82. Vocalink argued that it could pass on information of this kind without divulging "private financial information". It believed that the opportunity to reduce losses would be considerable because 90% of salaries and 98% of benefit payments are paid using the Bacs system.[85]

83. Mike Driver told us that DWP's benefit payments made up some 49% of all Bacs transactions. He confirmed that DWP was in discussions with the Payments Council, the payments services industry body, and "looking at what the opportunities are."[86]

Legal basis and data-protection concerns

84. Witnesses believed that the necessary legal powers for the Government to access private sector data in fraud and error reduction activities existed in current legislation. Jan Smith of Callcredit Information Group reported that Section 29 of the Data Protection Act gave public authorities power to require access to CRA data, for example.[87] With regard to fraud, she pointed to the legal powers provided in the Serious Crime Act 2007.[88] Callcredit

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84   Callcredit Information Group (FAE0007) para 6

85   Vocalink (FAE0016) para 2

86   Q236

87   Q105 [Jan Smith]

88   Q129

also quoted the Information Commissioner, who said in September 2013 that "responsible data sharing in a good cause is always possible".[89]

85. Private sector witnesses emphasised that anomalies uncovered through data-sharing should only raise "exceptions"; they should not be used automatically to reject benefit or Tax Credit payments, rather they should trigger investigations.[90]

86. Lord Freud agreed that "using data smartly" had an important part to play in driving down fraud and error.[91] Mr Gauke believed that "data analytics are absolutely key" and that data-sharing could be effective both in the detection of incorrect claims in payment and in preventing fraud and error from entering the system in the first place.[92] However, Lord Freud expressed some caution, noting that the Government was "very, very conscious of data protection". He believed there was a "real debate" around the appropriate use of private sector data by government.[93]

87. **Matching information supplied for claims against data held by other public bodies and by private sector organisations such as credit reference agencies has been shown to be an effective way of both detecting incorrect benefit and Tax Credit claims in payment and preventing fraud and error from entering the system in the first place. We believe that the Government, and DWP in particular, could significantly reduce losses to the Exchequer due to incorrect payments by taking a more consistent approach to data-sharing. Proper consideration must, however, be given to data protection issues and, before using data such as that held by credit reference agencies, there must be assessment of their accuracy. Problems with data matching of addresses, for example, or names of previous residents being retained on records, could lead to people being wrongly targeted for investigation.**

88. *We welcome the various pilots that DWP and HRMC have conducted on how data held by private sector and other public bodies could be used effectively to reduce fraud and error and we urge the Government to roll out the most successful schemes as quickly as possible. We also recommend that DWP and HMRC explore, with the Payments Council and the banking sector, the feasibility of establishing a system which flags up potentially incorrect benefits and Tax Credits payments, using data held by payments systems operators and banks on the types of payments due to enter individual bank accounts. The system should be used to trigger further investigation of potentially anomalous benefit payments, rather than automatically reject payments.*

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89   Callcredit Information Group (FAE0007) para 4

90   Q140 [Simon Dukes and Jan Smith]

91   Q240

92   *Ibid*.

93   Q238

Conclusions and recommendations

In this list, conclusions are set out in plain type, and recommendations, to which the Government is required to respond, are set out in *italic* type.

Separate reporting of fraud and error statistics

1. *Whilst we understand that making a distinction between claimant error and fraud is not always straightforward, we believe that DWP could be clearer about the official estimated level of benefit fraud. We therefore recommend that DWP publish, on separate days, discrete statistical summaries of its estimated rates of a) fraud and b) official and claimant error in the benefits system, alongside its more detailed report, to reduce the risk of confusion or conflation of these statistics in media reporting and public perceptions about benefit fraud, and to emphasise the importance of actions to reduce error as well as fraud.* (Paragraph 19)

Communication with claimants

2. Improving the clarity of DWP's communication with claimants will be a crucial factor in reducing claimant error—the most prevalent cause of incorrect benefit payments. Clear communication can help to ensure that claimants understand fully their benefit entitlements and the importance of reporting relevant changes in their personal circumstances. We welcome work being done to improve the clarity of DWP's communication with claimants, as part of the development of Universal Credit. However, as we highlighted recently, considerable uncertainties remain around the timescale for developing Universal Credit, which cast some doubt on whether it will be fully implemented in 2017. (Paragraph 23)

3. *We recommend that, wherever feasible, DWP introduce updated claimant letters, using plain English, for its existing benefits, drawing on its learning from the development of Universal Credit communications. We also recommend that DWP give special consideration to the clarity of claimant letters in relation to Employment and Support Allowance, which will be the last of the current benefits to fully transfer into Universal Credit.* (Paragraph 24)

Meeting the fraud and error target

4. DWP has a good understanding of the causes of incorrect benefit payments and has devoted considerable effort and resources to fraud and error reduction. However, fraud and error rates have plateaued since 2005/06, with the estimated overpayment rate remaining between 2.0% and 2.2% of overall benefits expenditure. DWP will only meet the target set in 2010, to reduce the estimated overpayment rate to no more than 1.7% by April 2015, if it employs innovative approaches which are aligned with the known risk factors associated with each benefit. (Paragraph 29)

Housing Benefit, Universal Credit and the role of local authorities

5. *We welcome the introduction of the Automated Transfer to Local Authority Systems (ATLAS). We recommend that DWP and appropriate representatives from local government conduct a joint review of ATLAS, including the level of resources needed to analyse ATLAS data, with a view to enabling local authorities to access the DWP data they need to verify Housing Benefit claims more easily. This review should be conducted and improvements implemented before the end of 2014.* (Paragraph 37)

6. *By utilising real-time information (RTI) on PAYE income, Universal Credit has the potential to substantially reduce incorrect benefit payments due to inaccurate or late reporting of claimants' earnings; and it is projected to produce significant savings in Tax Credits. However, RTI cannot provide the complete solution, as it will not apply to a significant proportion of claimants who are paid outside the PAYE system, including the self-employed. Moreover, the full gains of RTI in relation to reducing benefit fraud and error are largely dependent on the successful national implementation of Universal Credit, which is at least three years away by the most optimistic schedule. We therefore welcome steps to apply RTI to existing benefits where possible and recommend that DWP and HMRC consider methods to automate this process.* (Paragraph 48)

Identity verification and IRIS

7. *We believe that in the longer term biometric identity systems could have an important role to play in identity verification processes across government. We recommend that the Government continue the Cabinet Office work to explore a government-wide system; and evaluate the benefits of biometric identity verification in the social security system and more widely across public services, including by examining the effectiveness of the voice-recognition system currently used in Australia.* (Paragraph 55)

8. Local authorities expressed concerns about DWP's current capability to administer the housing element of Universal Credit with the same level of safeguards which local authorities are currently able to apply to Housing Benefit administration, and therefore without increased risks of fraud and error. The Integrated Risk and Intelligence Service (IRIS), or a similar system to allow DWP to cross-check claims against the range of property data held by local authorities, will be vital. Such a system will need to be fully developed and tested before national implementation of Universal Credit commences. (Paragraph 61)

The Single Fraud Investigation Service

9. *The Single Fraud Investigation Service (SFIS) is, in principle, a good idea. However, it makes no sense to roll out SFIS nationally, ahead of the national implementation of Universal Credit, while local authorities retain responsibility for Housing Benefit. We recommend that the implementation of SFIS be aligned where practicable with the expansion of the Universal Credit Pathfinder areas and with national implementation of Universal Credit. We further recommend that, following the summer 2014 SFIS pilots, DWP pause implementation of SFIS to enter into negotiations with local government and the relevant trade unions about a national framework for the transfer of local authority fraud investigations staff into DWP.* (Paragraph 75)

Data-sharing

10. Matching information supplied for claims against data held by other public bodies and by private sector organisations such as credit reference agencies has been shown to be an effective way of both detecting incorrect benefit and Tax Credit claims in payment and preventing fraud and error from entering the system in the first place. We believe that the Government, and DWP in particular, could significantly reduce losses to the Exchequer due to incorrect payments by taking a more consistent approach to data-sharing. Proper consideration must, however, be given to data protection issues and, before using data such as that held by credit reference agencies, there must be assessment of their accuracy. Problems with data matching of addresses, for example, or names of previous residents being retained on records, could lead to people being wrongly targeted for investigation. (Paragraph 87)

11. *We welcome the various pilots that DWP and HRMC have conducted on how data held by private sector and other public bodies could be used effectively to reduce fraud and error and we urge the Government to roll out the most successful schemes as quickly as possible. We also recommend that DWP and HMRC explore, with the Payments Council and the banking sector, the feasibility of establishing a system which flags up potentially incorrect benefits and Tax Credits payments, using data held by payments systems operators and banks on the types of payments due to enter individual bank accounts. The system should be used to trigger further investigation of potentially anomalous benefit payments, rather than automatically reject payments. (Paragraph 88)*

Formal Minutes

Wednesday 7 May 2014

AFTERNOON SITTING

Members present:

Dame Anne Begg, in the Chair

Debbie Abrahams	Nigel Mills
Sheila Gilmore	Mr Michael Thornton
Glenda Jackson	Dame Angela Watkinson
Kwasi Kwarteng	

Draft Report (*Fraud and error in the benefits system*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 88 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Sixth Report of the Committee to the House.

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

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

[Adjourned till Wednesday 14 May at 9.15 am.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page at www.parliament.uk/workpencom

Monday 17 March 2014   *Question number*

Debbie Gibbons, National Chair, and **Mick Hopkins**, Midlands Regional
Chair, Local Authority Investigation Officers Group; **Councillor
Sharon Taylor**, Deputy Chair, and Chair of the Finance Panel, Local
Government Association (and Labour Leader of Stevenage Borough
Council); and **Kevin Williamson**, Head of Policy, National Housing
Federation   Q1-81

Monday 31 March 2014

Jan Smith, External Affairs Director, Callcredit Information Group,
Simon Dukes, Chief Executive, CIFAS, and **Sean Duffield**, Partner and
Public Sector Director, Nuance Communications   Q82-154

Monday 7 April 2014

Lord Freud, Minister for Welfare Reform, **Mike Driver**, Director General,
Finance, Department for Work and Pensions, **Mr David Gauke MP**,
Exchequer Secretary to the Treasury, and departmental Minister for HM
Revenue and Customs, and **Nick Lodge**, Director General, Benefits and
Credits, HM Revenue and Customs   Q155-252

Published written evidence

The following written evidence was received and can be viewed on the Committee's inquiry web page at www.parliament.uk/workpencom. FAE numbers are generated by the evidence processing system and so may not be complete.

1   Callcredit Information Group (FAE 07)
2   CIFAS (FAE 04, FAE 21)
3   Convention of Scottish Local Authorities (FAE 11)
4   Department of Work And Pensions (FAE 13, FAE 23)
5   Derby City Council (FAE 02)
6   G4S Investigation Solutions (UK) Limited (FAE 12)
7   Local Authority Investigation Officers Group (FAE 08)
8   Local Government Association (FAE 10)
9   Low Incomes Tax Reform Group (FAE 09)
10   National Audit Office (FAE 20)
11   National Housing Federation (FAE 05)
12   Nuance Communications (FAE 14, FAE24)
13   Scottish Local Authority Investigators Group (FAE 03)
14   Trustid (FAE 18)
15   Unison (FAE 19)
16   Visa Europe (FAE 15)
17   Vocalink (FAE 16)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee's website at
www.parliament.uk/workpencom

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2013–2014

First Report	Can the Work Programme work for all user groups?	HC 162 (HC 627)
Second Report	The role of Jobcentre Plus in the reformed welfare system	HC 479 (HC 1210)
Third Report	Monitoring the performance of the Department for Work and Pensions in 2012-13	HC 1153
Fourth Report	Support for housing costs in the reformed welfare system	HC 720
Fifth Report	Universal Credit implementation: monitoring DWP's performance in 2012-13	HC 1209

Session 2012–2013

First Report	Appointment of the Chair of the Social Security Advisory Committee	HC 297
Second Report	Youth Unemployment and the Youth Contract	HC 151 (HC 844)
Third Report	Universal Credit implementation: meeting the needs of vulnerable claimants	HC 576 (Cm 8537)
Fourth Report	Lifting the restrictions on NEST	HC 950
Fifth Report	The Single-tier State Pension: Part 1 of the draft Pensions Bill	HC 1000 (Cm 8620)
Sixth Report	Improving governance and best practice in workplace pensions	HC 768 (HC 485)

Session 2010–2012

First Report	Youth Unemployment and the Future Jobs Fund	HC 472 (HC 844)
Second Report	Changes to Housing Benefit announced in the June 2010 Budget	HC 469 (HC 845)
Third Report	Appointment of the Chair of the Social Security Advisory Committee	HC 904
Fourth Report	Work Programme: providers and contracting arrangements	HC 718 (HC 1438)
Fifth Report	The Government's proposed child maintenance reforms	HC 1047 (HC 1727)

Sixth Report	The role of incapacity benefit reassessment in helping claimants into employment	HC 1015 (HC 1641)
Seventh Report	Government support towards the additional living cost of working-age disabled people	HC 1493 (HC (12–13)105)
Eighth Report	Automatic enrolment in workplace pensions and the National Employment Savings Trust	HC 1494 (HC (12–13)154)