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Public Accounts Committee

Department for Work and Pensions Accounts 2019–20

Twenty-Sixth Report of Session 2019–21

Report, together with formal minutes relating to the report

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The Committee of Public Accounts

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Contents

Summary

The Department for Work and Pensions (the Department's) accounts have been qualified every year since 1988–89 due to material levels of overpayments and underpayments in benefits expenditure. Benefit overpayments, excluding State Pension, continue to increase and reached their highest estimated rate even before COVID-19. The estimated overpayment rate, excluding State Pension, now stands at 4.8% (£4.5 billion) of benefit expenditure of £93.1 billion for 2019–20.

The Department has given us multiple reassurances that it will be able to reduce the rate of fraud and error in benefit expenditure and is committed to working towards removing the qualification of its accounts. It is good at understanding the types of fraud and error in the system, but it is currently unable to demonstrate the cost-effectiveness of its counter fraud and error controls. Improving its understanding of its control's cost effectiveness is vital to ensure it is putting in place the best possible response to fraud and error. We welcome what seems to be a new, more confident and constructive attitude and will be holding the Department to account for improving its performance, aided by the fraud and error targets it has agreed to set.

Since March 2020, the Department has had to respond rapidly to the impact of the COVID-19 pandemic. As measures to address the virus affected people's incomes, many turned to benefits for the first time. The number of people on Universal Credit rose from 2.9 million in February to 5.6 million in August, with a peak of over 100,000 new claims a day at the end of March. We recognise the hard work and commitment of the Department's staff to rise to the challenge of processing these new claims; the Department's preliminary statistics show that 89% of new claims were paid on time and in full from 1 March 2020 to 26 May 2020.

To manage increased demand as a result of COVID-19, and to support vulnerable people during lockdown, the Department made changes to benefit delivery, including turning off some controls (also referred to as control 'easements') that are ordinarily in place to mitigate the risk of fraud and error. The large increase in caseload and easement of certain controls mean that losses to the taxpayer through benefit fraud and error are expected to increase significantly in 2020–21.

Various mitigations, including additional verification by its newly established Enhanced Checking Service, were introduced to combat the increased fraud and error risk. Nonetheless, the Department will continue to face big challenges due to COVID-19. It will need to be able to quantify the fraud and error impact of the pandemic and the effectiveness of the countermeasures which it has introduced. As it steps up its recovery activities, the Department must also be sensitive to the circumstances and needs of vulnerable claimants when recovering overpayments.

Introduction

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

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

Conclusions and recommendations

1. **In response to the COVID-19 pandemic, the Department successfully processed millions of new benefit claims and will need to be prepared for probable further increases in unemployment.** Since March 2020, the Department has had to respond rapidly to the impact of the COVID-19 pandemic. As measures to address the virus affected people's incomes, there was a large spike in the number of new claims for Universal Credit, with an increase in the number of people on Universal Credit from 2.9 million in February to 5.6 million in August, and a peak of over 100,000 new claims a day at the end of March. In response to this challenge, the Department says that it: temporarily redeployed around 10,000 staff to focus on Universal Credit; brought additional staff into the organisation from other departments and external recruitment; introduced several easements to controls to manage demand, and to support vulnerable people during lockdown; and put in place new automation and ways of working. As a result, the Department's preliminary statistics show that 89% of new claims were paid on time and in full from 1 March 2020 to 26 May 2020. Unemployment is now expected to rise, and the Department is likely to face further surges in demand for benefits as HM Revenue and Customs employment support schemes come to an end.

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

2. **Even before COVID-19, fraud and error overpayments were at their highest ever rates, with around £1 in £10 of Universal Credit paid incorrectly.** The estimated overpayment rate, excluding State Pension, now stands at 4.8% (£4.5 billion) of benefit expenditure of £93.1 billion for 2019–20; this is the Department's highest ever estimated overpayment rate. The Department does not currently have a target rate of fraud and error, although it has now publicly committed to setting one once it has established a clear baseline. We look forward to the Department finally setting fraud and error targets after several recommendations to do so by this Committee in recent years. Of all measured benefits, Universal Credit has the highest estimated overpayment rate - 9.4% (£1.7 billion) for 2019–20 - and it has an estimated underpayment rate of 1.1% (£0.2 billion). Fraud and error in Universal Credit is set to increase significantly in 2020–21. As a rough estimate, a doubling in caseload alone (ignoring the effect of easements to controls) could cause around £1.9 billion of additional fraud and error in Universal Credit.

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

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

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

any rise in the level of fraud and error caused by an increase in benefit caseload, the Department acknowledges that the easements to controls it has made to respond to the pandemic will also increase fraud and error. It has therefore produced a range of estimates of the amounts potentially at risk which has been shared with HM Treasury. In order to analyse the effect on fraud and error of specific control easements, the Department says that it is using tools such as predictive analytics and that it is monitoring its level of staff referrals over time (a staff referral is produced when a staff member suspects the details of a claim are incorrect). The Department reports that due to the redeployment of staff to tackle the surge of claims and the difficulties of sampling in lockdown, it will not be able to review cases to produce an estimate of fraud and error in 2020–21 in the usual way. However, it accepts that "*it is vital that we do our absolute best*" to have an overall estimate of fraud and error in its Annual Report for 2020–21, where it also "*aims*" to report the fraud and error cost of its easements to controls.

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

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

4.   **The Department cannot demonstrate that it is doing everything that is cost-effective to tackle fraud and error.** The National Audit Office's work in 2019–20 on the Department's strategy to tackle fraud and error showed that the Department could do more to understand the cost-effectiveness of individual controls. The Department's recent efforts to improve those controls have focused on using its technology and putting more investment into data and data analytics which it hopes will allow it to prevent fraud and error before it enters the system. The impact of these technologies is still unproven: the Department's Risk and Intelligence Service (RIS) was launched in April 2018 and the Department reported that it was using 'increasingly sophisticated data and analytical tools' to tackle fraud and error; however, the estimated rate of overpayments continues to rise. The Department is investing in technology which will enable it to tailor its interventions based on its risk assessment of a claim. However, we are concerned about the potential for discrimination and bias against claimants based on their protected characteristics e.g. age, sex, race etc.

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

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

5.   **The Department has made slower progress on some causes of fraud and error; this is sometimes due to legislative and regulatory restrictions.** There are specific risk areas such as capital, living together, self-reported and self-employed earnings

where the Department admits it is harder to tackle fraud and error, in part due to the lack of access it has to timely, accurate data. In 2019–20, measured capital fraud and error across all measured benefits rose by £380 million (73%) to £910 million; the largest increase in value for any individual risk type. The Department is seeking to expand its use of data in this area and has performed some initial work on tackling capital risk using data from banks, which it says gave "*really good results*". Although the Department has powers that allow it to ask for the information that it needs when it is doing an individual compliance investigation, it does not have legal access to the same level of information for the controls it uses to prevent and detect fraud and error. The Department must balance tackling fraud and error risk against what is feasible within the legislation around data privacy.

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

6. **As at 31 March 2020, the Department was owed £5.3 billion from benefit overpayments, benefit advances and Tax Credits debt. This number continues to increase rapidly.** As at 31 March 2020, the Department was owed: benefit overpayments of £2.6 billion; benefit advances of £1.0 billion; and Tax Credits debt of £1.8 billion. This represents a significant annual increase of 39% (£1.5 billion) on the £3.8 billion owed as at 31 March 2019, and the amount owed to the Department is expected to increase further as Universal Credit expands and it takes on more Tax Credits debt from HM Revenue & Customs. The amount owed to the Department will have also risen when the Department temporarily suspended most debt recovery in March 2020 as direct response to the COVID-19 pandemic (it only reintroduced the recovery of new overpayments in late September). Although the Department claims that "*there are cases where things are written off, but they are exceptional cases*", the reality is that around £290 million of non-recoverable benefit overpayments were written-off in 2019–20, with an additional £7 million relating to customer fraud also written-off. Furthermore, the Department accepts it will not be able to recover a significant portion (44%) of its existing benefit overpayments and Tax Credits debt, recognising a £1.9 billion impairment in its accounts.

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

7. **The people that are being overpaid and underpaid are amongst those least likely in society to be able to pay the money back or absorb an underpayment.** The nature of means tested benefits means people entitled to receive the benefits are already those in society with the lowest incomes and savings. Even within this group, those with the least are affected the most by having to repay debts: for instance, Universal Credit claimants with the lowest incomes face larger deductions to repay debts (including advances) applied to their first Universal Credit payment. These deductions can be substantial and are more likely to be so for low income claimants; 45% of Universal Credit claimants on low incomes have 20% or more of

their personal allowance deducted in the first assessment period, compared to 27% across all claims.

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

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

1   Background and the Department's response to COVID-19

1.   We took evidence from the Department for Work & Pensions (the Department) based on its 2019–20 Accounts, and the Comptroller and Auditor General's audit certificate and report contained within that document.[1]

2.   The Department is responsible for the delivery of work, welfare, pensions and child maintenance policy. As part of this, it is responsible for paying benefits to claimants on time, and in full, in accordance with legislation and the related regulations. The Department serves over 20 million claimants and customers. In 2019–20, it spent £191.8 billion on benefit payments to claimants. Of this, £173.5 billion was for benefits paid directly by the Department and £18.2 billion was for Housing Benefit paid on its behalf by Local Authorities.[2]

3.   Benefit expenditure represents 97% of the Department's total operating expenditure of £197.5 billion (the remaining expenditure relates to the Department's running costs including staff remuneration and contracted-out programmes). Benefit payments are susceptible to both deliberate fraud by individuals, and unintended error by claimants and the Department.[3]

4.   The C&AG has qualified the Department's accounts every year since 1988–89 due to material levels of fraud and error in benefit expenditure. The 2019–20 accounts were qualified for fraud and error in all benefits except State Pension, because State Pension, having relatively simple conditions of entitlement, has very low fraud and error.[4] The overpayment rate was 4.8% (£4.5 billion) and the underpayment rate was 2% (£1.9 billion) across all the other benefits. The Department expects that the significant increase in its benefits caseload as a consequence of COVID-19, alongside the fraud and error impact of relaxing some of its controls in response to the pandemic, will lead to a further increase in losses to the taxpayer from benefit fraud and error in 2020–21.[5]

Significant increase in benefits caseload as a result of COVID-19

5.   As measures to address the COVID-19 pandemic affected people's incomes, there was a large spike in the number of new claims for Universal Credit as the main working-age benefit.[6] The Department told us that it received "*six times as many claims as we might normally expect*" over the course of the first six months of the pandemic.[7] The Department reported that there was an increase in the number of people on Universal Credit from 2.9 million in February to 5.6 million in August, and a peak of over 100,000 new claims a day at the end of March. Other benefits, such as New Style Jobseeker's Allowance and Employment Support Allowance also saw increases in claims over this period.[8]

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1   Department for Work & Pensions, *Annual Report and Accounts 2019–20*, HC 401, 30 June 2020; and C&AG's Certificate and Report on pages 180–195 of same. Abbreviated in subsequent footnotes to 'DWP ARAC 2019–20'

2   DWP ARAC 2019–20, pages 12, 184

3   DWP ARAC 2019–20, page 184, 186

4   C&AG's Report, *Departmental Overview 2019–20: Department for Work & Pensions*, 13 October 2020, page 12; DWP ARAC 2019–20, pages 184, 186

5   Q 20; DWP ARAC 2019–20, pages 185, 186

6   DWP ARAC 2019–20, page 193

7   Q 1

8   DWP ARAC 2019–20, page 193; Letter from DWP to Committee dated 22 September 2020, page 6

6.   In order to ensure that enough people were available to deal with the spike in new Universal Credit claims, the Department told us that it *"took in something like 10,000 colleagues from other parts of the organisation to focus on Universal Credit claims"* and brought additional staff into the organisation from other departments and external recruitment.[9] The Department told us that in addition to the mobilisation of staff, it was through *"new automation and new ways of working"* that it was able to manage the surge in claims.[10] For example, it informed us that it *"started the period with a situation in which quite a number of folk had to be at home, but were unable to work"* but that it managed to get out around 20,000 devices to staff at home to enable them to work.[11]

7.   The Department also turned off some usual controls (also referred to as control 'easements') that are ordinarily in place to mitigate the risk of fraud and error to allow it to manage demand, and to support vulnerable people during lockdown. For example, claimants no longer had to attend a job centre for a face-to-face interview and the Department has reduced some of its checks on the information claimants provide.[12]

8.   The Department's figures show that payment timeliness was maintained at around pre-COVID-19 levels. Its preliminary statistics show that 89% of new claims were paid on time and in full from 1 March 2020 to 26 May 2020.[13] This followed the Department's efforts to improve the portion of new claims paid on time and in full from 55% in January 2017 to around 90% in February 2020.[14]

9.   The Office for Budget Responsibility's *Fiscal Sustainability Report (July 2020)* outlines that 'unemployment is likely to be materially higher for several years' and forecasts that unemployment will significantly increase from its current level (it assumes 15 per cent of people on the Coronavirus Job Retention Scheme will 'move into unemployment' in its central scenario).[15] In response to questioning on how the Department is preparing for another possible increase in benefit claimants over the next few months, it told us *"we are developing very robust business continuity programmes that build on what we have learnt"*.[16] The Department has been promised an additional £895 million of funding as part of the 'plan for jobs' (announced on 8 July) 'to enhance work search support by doubling the number of work coaches in Jobcentre Plus before the end of the financial year across Great Britain'.[17] The Department told us that it aims to increase the number of work coaches from 13,500 to 27,000 by the end of March 2021; it explained that it is currently in its second wave of recruiting and is hiring 8,000 staff (4,500 work coaches and 3,500 to work in service centres and back-office processes to help manage claims).[18]

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9   Q 5

10   Q 1

11   Q 5

12   DWP ARAC 2019–20, page 193

13   C&AG's Report, *Departmental Overview 2019–20: Department for Work & Pensions*, 13 October 2020, page 18.

14   C&AG's Report, *Universal Credit: getting to first payment*, Session 2019–21, HC 376, 10 July 2020, page 33, para 2.8

15   Office for Budget Responsibility, *Fiscal Sustainability Report*, July 2020, pages 38–39, 137

16   Q 5

17   HM Treasury, *Plan for Jobs*, CP 261, 8 July 2020, page 9, para 2.17.

18   Q 5

2 Fraud and error

Pre-COVID-19: fraud and error at record levels

10.   Benefit overpayments are at their highest estimated rates and have risen consistently since 2015–16. Excluding State Pension, the estimated rate of overpayments increased again to 4.8% (£4.5 billion) of estimated benefit expenditure of £93.1 billion for 2019–20, from a restated rate of 4.4% (£3.8 billion) in 2018–19. The estimated rate of underpayments, excluding State Pension, decreased to 2.0% (£1.9 billion) in 2019–20, from its restated rate of 2.2% (£1.9 billion) in 2018–19.[19]

11.   The Department does not currently have a target rate of fraud and error for us to use to hold it to account. However, the Department does now "absolutely accept in principle" that it should have a target "*given the level of public scrutiny and interest in the question of fraud and error in the DWP and benefits*." It told us that it was going to set a headline target of around 2.3% for 2020–21; this target appears to be for overpayments including State Pension which were at 2.4% (£4.6 billion) in 2019–20.[20] However, the Department informed us that it reversed its decision to set a target for 2020–21 because it first needs to establish a "*clear baseline*" after the effect of COVID-19.[21] This Committee has made several recommendations in recent reports for the Department to set fraud and error targets, not only at an overall rate, but for each benefit.[22] This would allow for better scrutiny of the impact of the Departments' initiatives and emerging new risks of fraud and error.

12.   Universal Credit has the highest estimated overpayment rate of all measured benefits—9.4% (£1.7 billion) for 2019–20—and it has an estimated underpayment rate of 1.1% (£0.2 billion). This is the highest recorded overpayment rate for any benefit other than Tax Credits (administered by HMRC), which peaked at 9.7% in 2003–04.[23] The Department told us that that is it "*not happy*" with the fraud and error figures for Universal Credit and that it is currently "*well off*" achieving the fraud and error savings targets in the Universal Credit business case (£1.3 billion a year in steady state).[24] Despite its current performance, it reassured us that it is confident it will achieve the business case fraud and error savings in future.[25]

13.   Even before the impact of COVID-19 the Department had not yet delivered the value of savings on fraud and error on which the Business Case for Universal Credit was based.[26] As these were intended to be annually recurring savings, every year of delay in achieving them represents a real and significant cost to the public purse.[27] The Department is not yet able to tell us how long it will take to achieve the promised level of savings, and it is therefore unable to tell us what the total additional cost will be.[28]

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19   DWP ARAC 2019–20, pages 186–188

20   Q 21; DWP ARAC 2019–20, page 70

21   Q 21

22   Committee of Public Accounts, *Universal Credit and fraud and error: progress review*, Session 2016–17, HC 489, 4 November 2016, recommendations 5 and 8; Committee of Public Accounts, *Fraud and Error Stocktake*, Session 2015–16, HC 394, 28 October 2015, recommendations 2 and 4.

23   DWP ARAC 2019–20, pages 189, 191, 238

24   Q16; C&AG's Report, *Rolling out Universal Credit*, Session 2017–19, HC 1123, 15 June 2018, page 52, Figure 18

25   Q 18

26   Q 17, C&AG's Report, Universal Credit: getting to first payment, Session 2019–21, HC 376, 10 July 2020, page 41, paragraph 2.24

27   C&AG's Report, Rolling out Universal Credit, Session 2017–19, HC 1123, 15 June 2018, page 52, Figure 18

28   Q 19, Q 20

14. The Department informed us that "*many more claims naturally means more fraud and error in the system*".[29] The Department reported that the number of people on Universal Credit almost doubled from 2.9 million in February to 5.6 million in August and has continued to grow since.[30] Fraud and error in Universal Credit for 2019–20 is £1.9 billion (£1.7 billion overpayments and £0.2 billion underpayments).[31] Therefore, as a rough estimate, the effect of a doubling in caseload alone (ignoring the effect of easements to controls) could cause around a £1.9 billion increase in fraud and error in Universal Credit for 2020–21.

Fraud and error impact of COVID-19

15. The Department acknowledges that the easements to controls it has made to respond to the pandemic will increase fraud and error more than would otherwise be expected by the increase in claims. It has produced a range of estimates of the amounts potentially at risk which has been shared with HM Treasury.[32]

16. The Department informed us that it has taken steps to mitigate the impact of these easements. It said it believes the key thing is to have a real-time data feed that enables it to check that the mitigations it has put in place are being effective. It provided an example of it closely monitoring the referrals that its staff make to its centralised Enhanced Checking Service.[33] This is a new function, comprising 600 trained fraud investigators, to whom benefit processing staff can refer any suspicious cases for further investigation and additional verification.[34] The Department told us that the portion of claims being referred to Enhanced Checking Service "*peaked at one level at about 13%, but it has since fallen back to about 3% on average.*" The Department explained that it also gets real time information to monitor the fraud and error impact of control easements from "*predictive analytics*".[35]

17. However, whether these detection activities are successful does not inform us about the impact on the underlying rate of fraud and error. The Department reported that due to the redeployment of its staff to tackle the surge of claims and the difficulties of performing its sampling exercise in lockdown, it will not be able to review cases to produce an estimate of fraud and error in 2020–21 in the usual way.[36] The Department told us that its approach is to, as best it can, replicate the sampling that it would be doing in a normal year.[37]

18. The Department also informed us that as of July, after redeploying staff back into measurement activities, it has been measuring fraud and error on Universal Credit and it is also undertaking measurement work on other benefits such as Pension Credit and Employment Support Allowance. It told us that "*it is vital that we do our absolute best*" to have an overall estimate of fraud and error in its Annual Report for 2020–21, where it also '*aims*' to report the fraud and error cost of its easements to controls; the Department

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29   Q 20

30   Letter from DWP to Committee dated 22 September 2020, page 6; StatXplore (Department for Work & Pensions), People on Universal Credit, https://statxplore.dwp.gov.uk/webapi/jsf/tableView/tableView .xhtml (accessed 15/10/20)

31   DWP ARAC 2019–20, page 238

32   DWP ARAC 2019–20, page 194

33   Q 37

34   DWP ARAC 2019–20, page 76

35   Qq 37, 45

36   DWP ARAC 2019–20, page 185 192

37   Q 28

said it will look at how much detail it can go into with regards to attributing the fraud and error impact of its control easements.[38]

Pursuing a cost-effective control environment

19.   The National Audit Office's (NAO's) work in 2019–20 on the Department's strategy to tackle fraud and error showed that the Department has a good understanding of the types of fraud and error that occur in the benefit system, but that it needs to do more to understand the cost-effectiveness of individual controls so that it knows that it is doing absolutely everything that it should be doing to counter fraud and error. It also recommended that the Department both risk assess changes to its administrative processes and inform Parliament of those risks.[39]

20.   The Department told us that it wants to get to the point where its accounts are no longer qualified. It acknowledged that it is not where it wants to be, but said it knows what it needs to do.[40] It said that it is working with the NAO to understand what it needs to do to demonstrate that it has a cost-effective set of fraud and error controls. The Department added that, although there will always be some fraud and error, having fraud and error at a cost-effective level is consistent with its wider objectives of providing the service that its customers expect. It also stated that there "*is always a balance here*" (implying between fraud and error and other organisational objectives), but that it needs to get to a point where it has "*that balance set in a cost-effective way*", in order to provide confidence that its payments are in line with parliamentary intention.[41]

21.   The Department's fraud and error strategy relies on modernising its technology and putting more investment into data and data analytics. It told us that "*we really do see that putting more investment into data, into data analytics and into that prevention space, is going to get us where we need to go*", with prevention activity not allowing fraud and error into the system in the first place.[42]

22.   The Department launched its Risk and Intelligence Service (RIS) in April 2018 and reported that it was using 'increasingly sophisticated data and analytical tools' to tackle fraud and error.[43] In response to COVID-19, the Department absorbed the work of RIS and other intelligence teams into its new Integrated Risk and Intelligence Service (IRIS) which the Department reports is 'significantly increasing' its prevention capability through the use of new data matching rules. However, despite these claims, the impact of this technology is still largely unproven as the estimated rate of overpayments has continued to rise since this Risk and Intelligence Service was introduced.[44]

23.   The Department told us that it is starting to build a system that is based on 'transaction risking'; its vision is to be in a place where it can, in real time, or near real time, assess every claim as it is coming through and take a view of how much it trusts the information that is in the claim. For example, having one 'customer journey' (quicker and easier) for claimants where the Department trusts the information, and a different 'customer

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38   Qq 27, 40

39   DWP ARAC 2019–20, page 185

40   Qq 17, 19

41   Q 19

42   Q 24; DWP ARAC 2019–20, page 17

43   Department for Work & Pensions, *Annual Report and Accounts 2018–19*, HC 2281, 27 June 2019, page 122

44   DWP ARAC 2019–20, pages 73 and 76, 188 Figure 2

journey' with more intervention where the Department does not trust the information.[45]

24.   There are specific risk areas such as capital, living together, self-reported and self-employed earnings where the Department admits it is harder to tackle fraud and error, in part due to the lack of access it has to timely, accurate data.[46] In 2019–20, measured capital fraud and error rose by £380 million (73%) to £910 million across all measured benefits; the largest increase in value for any individual risk type.[47] The Department told us that it is "*looking very carefully, particularly with colleagues in other parts of Government*", to see what data it can use to get better access to capital information.[48] Although there are data sets available, there are time lag issues with these data sets. The Department also informed us that it has performed some initial work on tackling capital risk using data from banks which it says gave "*really good results*".[49]

25.   The Department told us that the big fraud and error saving that it knew would come from Universal Credit is using real-time information (RTI) on earnings from HMRC in an automated way to calculate the award, and that it 'knows' it is "*doing well on the RTI part*". However, the Department accepted that there is "*more fraud and error in self-reported earnings than had been anticipated*" and it has "*more to do on the self-employment part*".[50] The Department told us that is has other datasets from HMRC, "*because everybody has to make returns*", for claimants with self-employment or self -reported income. However, the Department said that there are time lag issues with this data so it needs to supplement it with data from other sources e.g. different agencies, financial institutions or financial companies that would have information on people.[51] The third risk area identified by the Department where further progress is required is 'living together' (e.g. where an undeclared partner might be living in a household). It informed us that it is looking at using other types of data matching in this area and reported that IRIS has developed data matching rules to help identify cases where an undeclared partner might be living in a household. Alongside looking for data matching opportunities, it also told us that a lot of work is going into making reporting a change of circumstance easier for capital, living together and self-reported and self-employed earnings.[52]

26.   The Department has powers that allow it to ask for the information that it needs when it is doing an individual compliance investigation, but it does not have legal access to the same level of information for the controls it uses to prevent and detect fraud and error. The Department told us it is currently working cross-government with Departments such as Cabinet Office and HMRC to understand whether there are gaps between the powers which it has and the powers which it needs.[53]

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45   Q 24

46   Q 17; 'Self-reported' earnings for Universal Credit is income from employment where the Department is not able to receive real time information from HM Revenue and Customs that it can use in its award calculation. Therefore, claimants are required to self-report these earnings.

47   DWP ARAC 2019–20, page 192

48   Q 17

49   Q 30

50   Qq 17, 29

51   Q 29

52   Q17; DWP ARAC 2019–20, page 73

53   Qq 29, 30

3 Debt

Rising debt levels

27. The Department's accounts show that as at 31 March 2020, claimants owed it £5.3 billion from benefit overpayments (£2.6 billion), benefit advances (£1.0 billion) and Tax Credits (£1.8 billion). This represents a significant annual increase of 39% (£1.5 billion) on the £3.8 balance owed as at 31 March 2019. Other amounts owed, such as those from Social Fund loans, are not included in these figures.[54]

28. Evidence suggests that the amounts claimants owe from benefit overpayments, benefit advances and Tax Credits are all likely to increase further in 2020–21. The Department temporarily suspended most debt recovery in March 2020 and reintroduced the recovery of new overpayments in late September.[55] With recovery action paused and a surge in new claims at a time when fraud and error controls had been relaxed, it is very likely amounts owed from benefit overpayments will have risen. The amounts due from benefit advances is expected to increase as the Department reports that 'from 1 March 2020 to 26 May 2020, 1,185,240 advance payments were issued' (around 971,420, are new claim and benefit transfer advances). Around £1.2 billion of Tax Credits debt was transferred from HM Revenue & Customs to the Department in 2019–20 as claimants moved onto Universal Credit. This will continue as customers with Tax Credit debt either make claims to Universal Credit or are 'migrated' from Tax Credits to Universal Credit.[56]

29. We are concerned about the risk associated with trying to reclaim an overpayment and the time it takes to recover an overpayment. The Department told us that it has "*very good and wide-ranging powers in terms of debt recovery*" and that "*there are cases where things are written off, but they are exceptional cases*".[57] However, around £290 million of non-recoverable benefit overpayments were written-off in 2019–20, with an additional £7 million relating to customer fraud also written-off.[58] Although there is a possibility (not certainty) to recover from State Pension, this could be years or decades away.[59] The Department's accounts show that it anticipates that it will not be able to recover a significant portion (44%) of its existing benefit overpayments and Tax Credits debt, recognising a £1.9 billion impairment in its accounts. It reported that 'around £1.0 billion in benefit debt (this is debt accrued over time) was recovered by the Department and Local Authorities in 2019–20'.[60]

Interacting with vulnerable claimants

30. Fraud and error have an impact on people's lives; when the Department recovers overpayments, this can lead to problems for claimants who face deductions from their income, whereas underpayments mean that households do not get the support they are entitled to.[61] The Department informed us that it 'carefully considers' whether there are

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54   DWP ARAC 2019–20, page 224
55   C&AG's Report, *Departmental Overview 2019–20: Department for Work & Pensions*, 13 October 2020, page 16
56   DWP ARAC 2019–20, pages 24, 76–77, 218
57   Qq 33, 34
58   DWP ARAC 2019–20, page 175
59   Q 33
60   DWP ARAC 2019–20, pages 72, 225
61   DWP ARAC 2019–20, page 186

cases of hardship, in which case it might recover at a much lower rate or pause recovery. It added that it will be starting a new initiative next year called 'Breathing Space'; to make sure that where it has vulnerable people, it is looking at whether they are able to payback when the Department needs to make a deduction.[62] The Department's approach to vulnerable claimants continues to be a concern and is an area where the previous Committee also made recommendations for improvement.[63]

31.   For a means tested benefit such as Universal Credit, people entitled to receive the benefit will be those in society with lower incomes and savings.[64] The National Audit Office's (NAO's) recent study on *Universal Credit: getting to first payment* found that 'the Department does not have all the information it needs to track vulnerable claimants and ensure its support is effective.' NAO's analysis of claims due for payment from January to September 2019 found that people with low incomes or whose claim includes additional costs, such as costs for a disabled child, are more likely to have deductions applied to their first Universal Credit payment to cover advance payment and other debts. Its analysis also found that deductions can be substantial and are more likely to be so for low income claimants; 45% of Universal Credit claimants on low incomes have 20% or more of their personal allowance deducted in the first assessment period, in contrast to the 27% average across all claims.[65]

32.   The Department reports that it is able to identify claims impacted by its temporary easements to controls, and that therefore it can revisit these claims to raise any resulting over (or under) payments that might have occurred; it reports that it will be starting this work in 2020–21.[66] The Department has a record of acting slowly to identify and correct underpayments. NAO's *Investigation into errors in Employment and Support Allowance* (ESA) in 2018 showed that the Department underpaid an estimated 70,000 claimants (at the time of reporting) who had transferred to ESA from other benefits; the error related to people who may have been entitled to income-related ESA but were instead only awarded contribution-based ESA, and therefore may have missed out on premium payments. Although the issue started in early 2011, it took until July 2017 for the Department to recognise that it had a legal responsibility to identify the people affected and develop a response.[67] As at January 2020, the Department has had to repay £589 million to 112,000 claimants that had been underpaid as a result of this error.[68]

33.   In response to COVID-19, many staff within the Department's Counter Fraud and Compliance Directorate were redeployed, meaning the Department temporarily paused compliance work.[69] As it restarts its compliance activity the Department should be aware of the lessons from NAO's *Investigation into overpayments of Carer's Allowance* in 2019.

62   Q 33

63   Committee of Public Accounts, *Universal Credit*, Session 2017–19, HC 1183, 26 October 2018, recommendations 2 and 3

64   Gov.uk, Universal Credit guidance (eligibility) webpage, https://www.gov.uk/universal-credit/eligibility (accessed at 05/10/20)

65   C&AG's Report, *Universal Credit: getting to first payment*, Session 2019–21, HC 376, 10 July 2020, pages 13, 29, 30

66   DWP ARAC 2019–20, page 76

67   C&AG's Report, *Investigation into errors in Employment and Support Allowance*, Session 2017–19, HC 837, 21 March 2018, pages 6 and 8

68   Official Statistics, January 2020: ESA underpayments: Forecast numbers affected, forecast expenditure and progress on checking, https://www.gov.uk/government/publications/esa-underpayments-progress-on-checking-january-2020/january-2020-esa-underpayments-forecast-numbers-affected-forecast-expenditure-and-progress-on-checking, (accessed on 15/10/20).

69   DWP ARAC 2019–20, page 193

This found that the Department's failure to commit sufficient resources to detecting overpayments and a backlog in referrals led some overpayments to not be detected for years, so that when they were detected, the claimant owed so much that they could not reasonably hope to repay it: for example, at the extreme end of this, 133 individuals owed over £20,000 which will take over 34 years to pay back if it is deducted from their benefits. The NAO also found that even when recovery plans were established, it took a significant period for the backlog to be managed back down to normal levels; in September 2017 the Department introduced its first recovery plan for new Carer's Allowance claims, as at March 2019 the backlog for processing new claims was still above the level the it considered as a 'manageable workload'.

Formal minutes

Monday 9 November 2020

Virtual meeting

Members present:

Meg Hillier, in the Chair

Gareth Bacon	Peter Grant
Olivia Blake	Mr Richard Holden
Sir Geoffrey Clifton-Brown	James Wild
Barry Gardiner	

Draft Report (*Department for Work and Pensions Accounts 2019–20*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 33 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Twenty sixth 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 Thursday 12 November at 9:15am

Witnesses

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

Thursday 24 September 2020

Peter Schofield, Permanent Secretary, Department for Work and Pensions;
Neil Couling, SRO for Universal Credit, Department for Work and Pensions;
Nick Joicey, Director General, Finance, Department for Work and Pensions;
Bozena Hillyer, Director, Counter Fraud and Debt, Department for Work and Pensions   Q1–56

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2019–21

First Report	Support for children with special educational needs and disabilities	HC 85
Second Report	Defence Nuclear Infrastructure	HC 86
Third Report	High Speed 2: Spring 2020 Update	HC 84
Fourth Report	EU Exit: Get ready for Brexit Campaign	HC 131
Fifth Report	University Technical Colleges	HC 87
Sixth Report	Excess votes 2018–19	HC 243
Seventh Report	Gambling regulation: problem gambling and protecting vulnerable people	HC 134
Eighth Report	NHS expenditure and financial management	HC 344
Ninth Report	Water supply and demand	HC 378
Tenth Report	Defence Capability and the Equipment Plan	HC 247
Eleventh Report	Local authority investment in commercial property	HC 312
Twelfth Report	Management of tax reliefs	HC 379
Thirteenth Report	Whole of Government Response to Covid-19	HC 404
Fourteenth Report	Readying the NHS and social care for the COVID-19 peak	HC 405
Fifteenth Report	Improving the prison estate	HC 244
Sixteenth Report	Progress in remediating dangerous cladding	HC 506
Seventeenth Report	Immigration enforcement	HC 407
Eighteenth Report	NHS nursing workforce	HC 408
Nineteenth Report	Restoration and renewal of the Palace of Westminster	HC 549