



House of Commons
Committee of Public Accounts

Progress in Tackling Benefit Fraud

**Thirty-first Report of
Session 2007–08**

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

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The Committee of Public Accounts

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Summary

Benefit fraud is a crime and undermines public confidence in the benefits system. The Department for Work and Pensions has a well-defined strategy for targeting benefit fraudsters. In 2006–07, the Department estimated that it spent some £154 million on tackling fraud, identifying £106 million of overpaid benefit, against total benefit expenditure of £120 billion. The Department estimates that fraud fell from £2 billion in 2001–02 to £800 million in 2006–07. Some £700 million of this reduction happened when the Department reclassified overpayments of Disability Living Allowance and its related benefits as neither fraud nor error. This change was reported in the annual accounts.

The United Kingdom has levels of benefit fraud and error which are similar to those in comparable countries, but the Department appears to have a better understanding than other national social security agencies of the problems and the means of tackling them. Estimated fraud now accounts for 0.6% of benefit expenditure, around £800 million. The Department must do more to reverse the rise in official and customer error. Estimated error rose from £1 billion in 2001–02 to £1.9 billion in 2006–07. The Department believes that benefit complexity is a major cause of error.

Since the Committee's last Report on tackling benefit fraud in 2003,¹ the Department has introduced new Customer Compliance teams to deal with less serious frauds. The Department has also tried to prevent fraud by increasing the volume of pre-payment checks and by successfully encouraging customers to receive benefit payments directly into their bank accounts. The Department now works closely with the police, the Serious Organised Crime Agency and local authorities to prevent, identify and act against fraud.

The Department could make more effective use of its powers and resources in tackling fraud. While the Department successfully prosecutes 90% of the cases it takes to court, the Prosecution Division has lost 17% of its staff since 2003. Debt recovery is an essential part of tackling fraud, yet in 2006–07 the Department only recovered £22 million of fraud debt out of a known fraud debt stock of £339 million. The Department has been slow to improve its management information systems, hampering its ability to measure the cost-effectiveness of counter-fraud activities. Although our predecessors concluded in 2003 that management information was inconsistent and poor, the Department has taken until February 2008 to roll out a new national management information system, known as FRAIMS, at a cost of £65 million.

On the basis of a Report by the Comptroller and Auditor General,² we examined the Department for Work and Pensions on progress in tackling fraud; making the best use of available resources and powers; and their effectiveness in tackling different types of fraud.

1 Committee of Public Accounts, Thirty-first Report of Session 2002–03, *Tackling Benefit Fraud*, HC 488

2 C&AG's Report, *Progress in tackling benefit fraud*, HC (Session 2006–07) 102

Conclusions and recommendations

- 1. The reported amount of benefit fraud has reduced, but the reported amount of customer and official error has nearly doubled in the last five years to almost £2 billion.** The current extent of error is unacceptable and has contributed to the continued qualification of the Department's accounts for the past 19 years. While estimated fraud has reduced to £800 million—around 0.6% of total benefit expenditure—official error rates for benefits such as Jobseeker's Allowance are still too high at 2.1%. To prevent official error increasing, the Department needs to target its training and compliance checks on those local offices and benefits which consistently have the highest error rates. Despite efficiency drives, the Department must not allow staffing cuts to have a detrimental effect on the fight against fraud.
- 2. Fraudsters increase their gains if they target benefits that act as passports to other forms of financial support.** Many benefits act as a gateway to further benefit entitlement and failure to prevent invalid claims in these increases the risk of fraud in other benefits. Since our predecessors' 2003 Report, the Department has strengthened the checks carried out at the outset of a benefit claim. It should pay particular attention to the internal controls around those benefits where there is a risk that initial entitlement to one benefit could be used to obtain others to which the customer is not eligible.
- 3. The Department is working more closely with local authorities to safeguard Housing Benefit from fraud and error.** Jobcentre Plus is piloting a scheme under which its offices act as customer service centres for Housing Benefit, currently administered through 408 local authorities. When evaluating the pilot scheme, the Department must take account of the impact the new arrangements will have on the capacity of Jobcentre Plus offices to deliver its existing services. It must mitigate the risk of overloading existing staff with additional and complex benefit rules that may lead to more official error in other benefits.
- 4. Organised crime continues to present a serious threat to the benefit system and needs careful management.** Organised crime is often complex and well planned. In 2006–07, the Department took some 900 cases of organised fraud to court, and around 70% of those cases which were prosecuted ended in an actual or suspended custodial sentence. Where the Department detects organised attacks on the system, it must take a firm and co-ordinated approach against these fraudsters, using both internal resources and working with external partners such as the police.
- 5. In 2006–07 only £22 million of £339 million known fraud debt was recovered.** Counter-fraud measures focus on overpayments identified, rather than monies recovered. The Department should set recovery targets for overpayments due to fraud and underpin these with a recovery strategy. The overall deterrent effect of the Department's counter-fraud work will ultimately be reduced unless money is recovered.

6. **The Department has taken too long to improve its management information systems.** Despite being told in 2003 that the Department was developing a better management information system, called FRAIMS, it was only in February 2008 that the new £65 million system was rolled out. Moreover, it is not sufficiently comprehensive. The Department needs to assess the effectiveness of this management information system as it is rolled out, and evaluate the future impact on those counter-fraud activities which currently are not served by the system.
7. **The cost-effectiveness of counter-fraud activity needs to be more routinely measured.** The Department reported that it spent some £154 million combating fraud in 2006–07. It needs to understand the relative cost effectiveness of its different counter fraud actions in order to determine where best to target its resources. The Department should develop a robust methodology for measuring the cost effectiveness of its work, drawing on its new management information system and the approach used in the Comptroller and Auditor General's Report.
8. **Some 200,000 cases of potential fraud were investigated in 2006–07, where the Department considered there to be a high probability of a prosecution, but only 7,500 were taken to court.** Potential fraudsters will not be deterred if the Department is not seen to be taking firm action where there is good evidence that fraud has taken place. The Department's 90% success rate at court suggests that they are selecting cases to prosecute which are likely to have a low risk of failure, but its lack of adequate management information makes it difficult to determine what other cases the Department should be prosecuting. The Department should analyse the outcome of prosecutions by case type so that it can make better informed decisions about the cases it should prosecute.
9. **The Customer Compliance approach is potentially a good way of handling lower level frauds but there is a risk that it may erode the message that the Department is tough on fraudsters.** The Department should review the cost effectiveness of Customer Compliance now that it has entered its second year of operation. This should consider the costs, performance and effectiveness of the approach, and also examine whether there are any signs that the model is undermining the Department's hard message on prosecution of fraudsters.
10. **The Department needs to take proper ownership of these recommendations and put in place arrangements to implement them.** Once the Department has published its Treasury Minute, setting out its intended actions in response to the Committee's recommendations, it should give responsibility for overseeing their implementation to a single senior official.

1 Progress in reducing fraud

1. Benefit fraud is a crime and undermines public confidence in the benefits system. The Department for Work and Pensions (the Department) has a well-defined strategy for targeting benefit fraudsters. Of the Department's 110,000 staff, around 4,000 (4%) work directly in counter-fraud activity. In 2006–07, the Department reportedly spent some £154 million on tackling fraud against total benefit expenditure of £120 billion. The Department assesses its progress in tackling fraud by using a sampling technique to estimate the total level of fraud in the benefits system.³

2. The estimated level of benefit fraud fell from £2 billion in 2001–02 to £800 million in 2006–07 (**Figure 1**). A considerable part of this reduction—some £700 million—occurred when the Department concluded that overpayments of Disability Living Allowance and its related benefits should no longer be considered as fraudulent.⁴ Estimated fraud now accounts for 0.6% of total benefit expenditure, although the level of estimated fraud as a percentage of expenditure ranges from 2.3% for Income Support and Jobseeker's Allowance to zero for the State Pension.⁵

3. In 2006–07, the Department identified £106 million of fraudulent overpayments in return for the £154 million it spent on counter-fraud activities. This means that the Department spent approximately £1.50 to identify every £1 of fraudulent overpayments. The Department does not consider that the amount of identified overpayments is an accurate reflection of the total impact of counter-fraud work. The measure does not take account of the deterrent effect of Departmental activity or the amount of benefits that would have been overpaid subsequently if departmental staff had not stopped the fraud.⁶

4. The Department is not complacent about reducing the level of fraud even further, but believes that it might be more cost-effective to devote any additional resources to tackling customer and official error instead. While fraud has fallen since 2001–02, customer and official error rose in the same period from an estimated £1 billion to £1.9 billion. For example, reported official error on Housing Benefit has increased by around a quarter to 1.4% of expenditure. In January 2006, the Department established an official error reduction taskforce although levels of official error have yet to go down significantly. The Department has reported that the taskforce is now correcting £2 million of weekly errors. The Department's error reduction strategy, launched in January 2007, includes a target to reduce error by £1 billion by 2012. The key strands of this strategy include:

- stopping error from entering the system in the first place;
- ensuring that customers and staff comply with benefit rules; and

3 Q 81; C&AG's Report, paras 1.1, 1.13, 2.17

4 People are eligible for Disability Living Allowance if they have difficulty with a range of everyday activities, such as walking outdoors or getting dressed and undressed. In 2004–05, the Department acknowledged that some customers' circumstances changed so gradually that they could not reasonably be expected to recognise the potential impact on their benefit claim. The Department decided that the resulting overpayments to these customers should not be classed as fraud or error.

5 Qq 2, 3, 18–21, 131–139; C&AG's Report, para 1.1; Figure 3

6 Qq 6, 71

- using data matching to identify high value errors that have already entered the system.

The Department accepts the conclusion of the National Audit Office report on dealing with the complexity of the benefits system that benefit rules can lead to high error rates.⁷ It expects its current initiatives to reduce error, but believes that it is too early yet to see the full impact.⁸

Figure 1: Levels of Fraud and Error in 2006–07

	EXPENDITURE	FRAUD		ERROR			
				OFFICIAL ERROR		CUSTOMER ERROR	
	£M	£M	%	£M	%	£M	%
REGULARLY REVIEWED							
Income Support	9,100	210	2.3	130	1.4	160	1.8
Jobseeker's Allowance	2,500	60	2.3	50	2.1	10	0.4
Pension Credit	6,900	110	1.6	160	2.3	90	1.3
Housing Benefit	14,900	150	1.0	210	1.4	420	2.8
PERIODICALLY REVIEWED (DATE OF ESTIMATE)							
Disability Living Allowance (2005)	9,200	40	0.5	70	0.8	60	0.6
State Pension (2006)	53,700	0	0	60	0.1	40	0.1
Carer's Allowance (1997)	1,200	50	3.9	10	0.6	10	1.0
Incapacity Benefit (2001)	6,600	10	0.1	90	1.3	20	0.2
Instrument of Payment fraud (2006)	n/a	10					
Interdependencies (2005)	n/a	10		10		10	
STATISTICALLY ASSESSED							
Council Tax Benefit	3,900	30	0.9	50	1.3	100	2.5
Other unreviewed benefits	11,800	70	0.6	80	0.7	60	0.5
TOTAL	119,800	800	0.6	900	0.8	1000	0.8

The value of fraud was highest in Income Support and Housing Benefit during 2006–07, and overall was 0.6% of total benefit expenditure. However, levels of official and customer error combined are greater than fraud at around 1.6% of expenditure.

Source: *Department for Work and Pensions*

Note: As part of the C&AG's audit of the Department's accounts, including the estimate of fraud and error, the National Audit Office reviews the Department's approach to sampling and the methodology applied in checking, including re-performance of a sample of items. The National Audit Office also reviews the processes for interpreting the data and generating estimates of error and fraud. As a result, the C&AG is satisfied that the figures reported by the Department are the best estimates available.

7 C&AG's Report, *Dealing with the complexity of the benefits system*, HC (Session 2005–06) 592

8 Qq 4–5, 32, 56–58, 78, 83, 110–112, 115; C&AG's Report paras 1.3, 1.9

5. The Department's method of measuring the level of fraud and error compares favourably with that of similar agencies in other countries. Research by the National Audit Office in 2006 did not find another organisation that uses a rolling measurement system to estimate the scale of loss.⁹ Some degree of subjectivity is inevitable when estimating fraud levels. In order to measure its progress and to act in individual cases, the Department must use its judgement to decide whether overpayments occur due to fraud or error. While it is generally easy to identify official error, it is harder to separate fraud and customer error because the Department must judge whether the customer had fraudulent intent. The Department told us that it does not arbitrarily reclassify fraud as error, and that both internal scrutiny and National Audit Office reviews act as controls on the decision-making process. When the Department reclassified Disability Living Allowance overpayments (see paragraph 2 above) it did so after consulting the National Audit Office and the matter was reported in its annual accounts.¹⁰ The Pension, Disability and Carers Service (previously the Disability and Carers Service), which administers Disability Living Allowance, has enhanced its checks and controls designed to ensure that customers now receive the correct amount of benefit.¹¹

6. The Comptroller and Auditor General has given a qualified opinion on the Department's financial accounts for the last 19 years due to the estimated levels of fraud and error. The Department believes that its accounts will continue to be qualified if the Comptroller and Auditor General applied the criteria that no more than 1% of payments should be incorrect.¹² It would prefer that there was a stretching yet attainable target that would motivate staff to improve performance, but accepts that it is not feasible to remove the qualification simply by raising the threshold on incorrect payments. The Department continues to discuss possible solutions with the National Audit Office, and has suggested one way may be to set different criteria for different benefit streams.¹³

9 C&AG's Report, *International Benchmark of Fraud and Error in Social Security Systems*, HC (Session 2005–06) 1387

10 C&AG's Report, *Department for Work and Pensions Resource Accounts 2004–05*, HC 477, 2005–06

11 Qq 13–18, 31, 66, 75, 88, 129–130, 140

12 The C&AG considers a range of factors when determining whether to qualify his opinion on the accounts including the percentage of spend on irregular payments, but we are informed that 1% is not a rigid threshold for this decision.

13 Qq 27–30, 125–127; C&AG's Report, para 1.1

2 Making the best use of available resources and powers

7. The Department's ability to identify fraud and recover overpayments is constrained by the resources it has available. By March 2008, it must reduce its workforce by 30,000 as part of a headcount reduction strategy that aims to generate £960 million of annual savings. The Department considers that it is compensating for the loss of staff by making more effective use of its counter-fraud resources than ever before. For example, the introduction of Customer Compliance teams¹⁴ enabled the Department to redeploy staff to benefit processing centres, reducing staff costs on direct counter-fraud activity by £20 million.

8. The Department accepts that it needs to improve the proportion of known debt that it recovers from customers each year. Social Security regulations limit the speed at which the Department can recover overpayments from benefit recipients. While it can be hard to track debtors if they enter full-time work, the Department now makes more use of data-matching and attachment of earnings orders¹⁵ to recover debt in such cases. In 2006–07, the Department recovered only £22 million of the £339 million of known debt it holds as a result of fraud. Overall, recovery of debt from both fraud and error increased by 30% between 2005–06 and 2006–07, with £233 million of public funds recovered. The Department expects the 2007–08 recovery rate of fraud and error debt to be even higher as it had collected £184 million between April and November 2007.¹⁶

9. When the Department opts to prosecute fraudsters, it is usually successful. In 2006–07, the Prosecution Division cost around £9.5 million and secured a successful prosecution in 6,756 out of 7,483 cases where it took court action. The Department estimates that only 20% of defendants choose to contest their cases. When deciding whether to bring a case to court, the Prosecution Division applies an evidential test and considers whether prosecution would be in the public interest. Of the 7,483 cases where court action was taken in 2006–07, 373 were discontinued for reasons of public interest. The Department can opt to use cautions or administrative penalties rather than prosecutions for less serious cases, although it may choose to prosecute such cases if the individual has a history of defrauding the benefit system. The Department told us that the Prosecution Division is not cost-constrained, meaning that cases are not dropped due to a lack of resources. Nevertheless, Departmental efficiency targets have led to a 17% reduction in staff since 2003.¹⁷

10. Our predecessors' 2003 report on tackling benefit fraud¹⁸ found that the Department's inadequate information technology systems were constraining its performance. The

14 During 2006, the Department introduced a new Customer Compliance approach. This approach deals with lower risk cases where full criminal investigation is judged unnecessary, enabling the Department's Fraud Investigation Service to investigate higher risk frauds.

15 An attachment of earnings order is a court order that allows the Department to recover debts from a debtor's wages.

16 Qq 7–11, 97–98; C&AG's Report, paras 3.4, 3.20

17 Qq 33–40; C&AG's Report, para 2.32; Figure 20

18 HC (Session 2002–03) 488

Department has been slow to improve its management information systems, which are hampering its ability to measure the cost-effectiveness of counter-fraud activities. In February 2008, the Department introduced a new, nationwide fraud case management system called FRAIMS. Although this does not cover some important elements of the Department's counter fraud activity, most notably the Prosecutions Division, the Department expects the FRAIMS system to improve management information dramatically and to streamline the handling of fraud cases. FRAIMS is expected to cost £65 million, and the Department forecast that it will enable staff savings of some £10 million a year from 2008–09 to 2013–14.¹⁹

11. Counter-fraud activity would be more effective if there was better communication between all the different teams that deliver the Department's counter-fraud strategy. Operational staff tend to be highly motivated by their own process-driven targets but are less clear on how their work contributes to the Department's strategic objective of reducing fraud by paying the right amount of benefit at the right time. The National Audit Office considered that fraud could be tackled more effectively if there was better dialogue between teams such as Customer Compliance, the Fraud Investigation Service and the National Benefit Fraud Hotline. The Department accepts that it needs to do more to translate its high-level targets into measurable action by operational teams, and expects that communication between teams will improve now that the new Customer Compliance approach has entered its second year of operation.²⁰

12. The public wants to be assured that the Department protects the benefit system from fraud. The Department uses advertising to reassure the public and to deter fraudsters. The twin messages of the recent £8 million '*No Ifs, No Buts*' advertising campaign were that the Department does not tolerate fraud and that fraudsters face a high risk of prosecution. Evaluation of the campaign found that the proportion of people who believed that benefit fraud 'is easy to get away with' fell from 40% to 30% during the campaign. If members of the public suspect benefit fraud, they can report it to the National Benefit Fraud Hotline. Between April and December 2007, the Hotline received 171,000 calls. The Hotline expects that 70% of calls will lead to referrals to the Fraud Investigation Service or Customer Compliance teams for further investigation, although the Department acknowledges that success in reaching this target depends largely on the quality of information that it receives from callers. While callers may be frustrated that they receive no feedback on the outcome of investigations, it would be hard to comment on individual cases without breaching confidentiality.²¹

19 Qq 65, 67–69; C&AG's Report, para 2.13

20 Qq 64, 84; C&AG's Report, paras 2.20, 2.25

21 Qq 41–46, 70, 74, 141–145

3 Effectiveness in tackling different types of fraud

13. Although fraud levels vary between benefits (**Figure 1**), the Department is not able to say which type of benefit fraud is hardest to tackle. In many cases, fraudsters do not limit themselves to one type of fraud. **Figure 2** provides the most up to date analysis of the most common benefit frauds. When departmental staff discover that someone is receiving a benefit fraudulently, they will check all the benefits that the person receives to make sure that they stop all overpayments. Many benefits act as a gateway to other benefits, which can magnify the extent of any fraud. For example, people who receive Income Support may also be entitled to Housing Benefit, Council Tax Benefit and free NHS prescriptions. If the Department does not spot invalid claims for the gateway benefit, it can expose other benefits to the risk of fraud. Since our predecessors examined benefit fraud in 2003,²² the Department has increased its checks on customers' identities and circumstances at the outset of their claim. During 2006–07, around 250,000 in-payment claims were checked for accuracy and 13,000 claims were checked before any payment was made.²³

Figure 2: Most common types of benefit fraud in Income Support, Jobseeker's Allowance and Pension Credit (October 2005–September 2006)

TYPE OF FRAUD	VALUE OF FRAUD £ MILLION
Claiming as a single person, but living with a partner as husband and wife	74
Fraud committed by customers living abroad	74
Undeclared earnings	70
Not at address	46
Undeclared capital	32
Other undeclared income	21
Dependents	16
Undeclared partners' earnings	14
Undeclared maintenance payments	5
Undeclared other benefits	5
Prison	3
Claimant at college	1
Other ¹	12

¹ The Department has recently revised the 'Other' category in order to provide more precise estimates.

Source: Department for Work and Pensions

14. Organised crime presents a considerable risk to the benefits system. Due to the high volume of payments, criminals can obtain large amounts of public money by fraud if they identify weaknesses in the system. An intelligence-led team within the Department's Fraud

22 HC (Session 2002–03) 488

23 Qq 79, 80, 82, 116; C&AG's Report, para 2.4

Investigation Service targets organised fraud, working closely with the police forces and the Serious Organised Crime Agency. In 2006–07, the Department’s Organised Fraud Unit instigated some 900 prosecutions for serious offences against the benefits system. Around 70% of those cases which were prosecuted resulted in an actual or suspended custodial sentence, with the longest sentence being seven and a half years. The Department has closed off an important weakness in the benefits system by encouraging its customers to receive payment directly into their bank accounts rather than by giro cheque. Referrals for instrument of payment fraud—such as the theft and forgery of benefit order books—have now fallen from 150,000 per year to 6,000 per year. The Department estimates that the switch to direct payments is likely to save around £1 billion between 2005 and 2010 because of the much lower payment costs of direct payment compared with cheques or order books.²⁴

15. The Department accepts that it needs to strengthen its response to the estimated £74 million of fraud committed by people living outside the UK (**Figure 2**). These frauds typically occur when someone either continues to collect benefits after a customer has died, or violates benefit conditions by living abroad. At present, the Department is considering how to implement better proof of residence tests for people who are supposed to live in the UK, and proof of life checks for people living abroad. It has recruited staff in countries such as India and Pakistan to help confirm the validity of payments to local residents, and is working with the Royal Mail to help identify people who are no longer living at a UK address. Data-matching can help to identify cases of fraud. For example, the Department reviews death records in the USA and New Zealand to spot cases where they have not been notified of the death of a customer. A weekly scan also identifies customers who are now in prison and so no longer entitled to benefits. The Department estimates that £3 million of benefits were paid fraudulently to prisoners between October 2005 and September 2006.²⁵

16. ‘Living together’ fraud occurs when a customer claims a means-tested benefit as a single person while living together with a husband, wife or civil partner. The Department estimates that ‘living together’ fraud costs £74 million in overpayments per year. The nature of the fraud requires time consuming evidence gathering before cases reach the required evidential standard. Weaknesses in departmental IT systems mean that the Department is not able to track routinely the court success of different types of fraud. Despite these problems, the Department denied that it is reluctant to pursue ‘living together’ cases. In 2006–07, it used administrative penalties in 3,782 cases (2,300 cases in 2005–06), while 2,000 cases were referred to the Department’s Prosecution Division.²⁶

17. Local authorities administer Housing Benefit on the Department’s behalf. Since 2003, estimated fraud on Housing Benefit has fallen from 1.9% to 1.0%, but official and customer error have risen by 7%. As a result, the Department did not meet its Public Service Agreement target to reduce fraud and error in Housing Benefit by 25% by 2005–06. The Department feels that the level of fraud on Housing Benefit is still too high and welcomes the reform that will allow local authorities to prosecute frauds against other benefits. This change should help the Department and local authorities to work more closely together. In

24 Qq 47–54, 86, 89–93, 106–107

25 Qq 55, 94–96, 99–105; C&AG’s Report, para 1.2

26 Qq 38, 39, 73; C&AG’s Report, para 2.29

six pathfinder areas, Jobcentre Plus offices rather than local authorities are providing Housing Benefit services to customers. It is too early to measure the impact of this pilot scheme, but the Department believes that taking the whole of the Housing Benefit system under its control would create a considerable strain on its resources.²⁷

27 Qq 72, 87, 117–121; C&AG's Report, para 1.7; Figure 6

Formal Minutes

Monday 2 June 2008

Members present:

Mr Edward Leigh, in the Chair.

Mr Richard Bacon

Paul Burstow

Mr Philip Dunne

Mr Nigel Griffiths

Mr Austin Mitchell

Mr Don Touhig

Phil Wilson

Draft Report (*Progress in tackling benefit fraud*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 17 read and agreed to.

Resolved, That the Report be the Thirty-first Report of the Committee to the House.

Ordered, That the Chairman 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 4 June at 3.30 pm.]

Witnesses

Monday 4 February 2008

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Sir Leigh Lewis KCB, Permanent Secretary, **Ms Shirley Trundle**, Director, Benefit Strategy Directorate, Work, Welfare and Equality Group, Department for Work and Pensions; **Mr Neil Couling**, Director, Benefits and Fraud, Jobcentre Plus

Ev 1

List of written evidence

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Oral evidence

Taken before the Committee of Public Accounts

on Monday 4 February 2008

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Angela Browning
Mr Ian Davidson
Mr Philip Dunne
Nigel Griffiths
Keith Hill

Mr Austin Mitchell
Dr John Pugh
Geraldine Smith
Mr Don Touhig
Phil Wilson

Mr Tim Burr, Comptroller and Auditor General, and **Mr Jeremy Lonsdale**, Director, National Audit Office, were in attendance and gave oral evidence.

Mr Marius Gallaher, Alternate Treasury Officer of Accounts, was in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Progress in Tackling Benefit Fraud (HC 102)

Witnesses: **Sir Leigh Lewis**, KCB, Permanent Secretary, **Ms Shirley Trundle**, Director, Benefit Strategy Directorate, Work Welfare and Equality Group, Department for Work and Pensions; **Mr Neil Couling**, Director, Benefits and Fraud, Jobcentre Plus, gave evidence.

Q1 Chairman: Good afternoon. Today we are considering the Comptroller and Auditor General's Report, *Progress in Tackling Benefit Fraud* and we are joined once again by Sir Leigh Lewis, who is Permanent Secretary at the Department for Work and Pensions. Perhaps you could introduce your colleagues and tell us what they do, please?

Sir Leigh Lewis: Surely. On my left is Shirley Trundle, who is the Director of Benefit Strategy in the Department. On my right is Neil Couling, who is the Director of Benefits and Fraud in Jobcentre Plus.

Q2 Chairman: We are looking at the progress your Department is making in tackling benefit fraud and I have a bouquet for you to start the proceedings. If we look at Figure Two, we will see that you have reduced benefit fraud by £200 million since we last considered this. However, £800 million is still a lot of money to lose every year, is it not?

Sir Leigh Lewis: It certainly is. The last thing that I or any of my colleagues want to do this afternoon is suggest that somehow £800 million does not matter because obviously it matters and it matters a great deal. I am grateful to you for your comments because we have seen the level of benefit fraud come down very substantially.

Q3 Chairman: £800 million, although a relatively small part of the overall budget, if we look at Figure Six, we will see that on some expenditures—for instance, if you take out State Pension where there is apparently 0% fraud—you still have Carers' Allowance, 3.9%, Income Support, 2.3% Job Seekers' Allowance, 2.3% If you take away the very well performing benefits, you do have serious problems in some areas, do you not?

Sir Leigh Lewis: We certainly have some benefits self-evidently, as you say, where the levels of fraud are higher. That of course inevitably relates to the innate characteristics of some of those benefits which are ones where fraud is higher, which tend inevitably to be ones which are more susceptible to some people who may want to defraud the benefits system. I have gone into this and there was a recent survey on state retirement pension which did indeed produce evidence of in effect very close to zero fraud. State retirement pension is almost inevitably a different kind of benefit because entitlement comes with contributions and age, so yes, it is absolutely the case that some benefits are innately more susceptible to fraud. That is why of course we have concentrated so much attention on those benefits.

Q4 Chairman: I started by congratulating you about the progress you have made in reducing benefit fraud but now let us look at error. If we look at for instance paragraph 1.3, just to get the facts right, it tells us that while fraud appears to have reduced by more than 50% the level of error has actually risen from £1.1 billion in 1997 to £1.9 billion in 2006–07. Does this focus on fraud mean that you have taken your eye off the ball on error?

Sir Leigh Lewis: No, I do not think it does, but you are absolutely right to say—I believe that the National Audit Office intends to produce a separate value for money report on error—that our performance on error, both official error and customer error, is not as good as our performance in relation to fraud. It is absolutely not the case however that in working very hard indeed to reduce fraud we have somehow taken our eye off error. Indeed, one of my first actions on becoming

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Permanent Secretary a little over two years ago in the Department was to establish an Official Error Reduction Task Force, which I did at the beginning of January 2006. It is fair to say that a lot of the measures that we have taken in the last two years, by the nature of the recording systems and the lags in the system, cannot yet have shown up in the figures. That is not a promise that they will because until we have those figures we will not know, but we have taken a very considerable number of steps and actions over the last two years to bear down on error.

Q5 Chairman: Were we to look at this, as I am sure we will, in four years' time, we would see considerable progress. If you take error and fraud combined, the progress in one is negated by the lack of progress in the other.

Sir Leigh Lewis: It is the case if you take them all together of course that we still have seen a very slow but nevertheless a decline in the overall levels of fraud and error, taken together. I would not myself put it as, if you will, one negates the other. I think it has been a very substantial achievement to have brought fraud down to the level we now have it but that does not mean for one moment that we can somehow forget about fraud and concentrate only on error. My determination is to concentrate on them both and what I would like to believe is that, if I am invited back to the Committee as you say in the future, there will be a story of fraud still at this level or ideally even below it, but with error lower.

Q6 Chairman: Let us look at your counter fraud strategy for one moment to see if it is cost effective. If you look at the value for money statement that you can find on page ten of this Report it says here that this suggests the Department is currently spending £1.50 to identify every £1 of overpayments. How can that be value for money?

Sir Leigh Lewis: Because, as the Report itself says of course, that assessment does not take account of the deterrent effect of our activities or the impact of stopping the fraud continuing, both of which are likely to be quite substantial. It is interesting that to prepare myself a little bit for this hearing I went out and talked with Neil Couling to a group of fraud investigators in West London last week. I sat them in front of me and said, "Talk to me about what is good and what is less good". They had seen this Report, knowing that I was coming, and themselves thought that while overpayment was a necessary measure it was far from telling the whole story. One said, "The better we get, the less overpayment we record". In another sense if you just focus on overpayment, it is a bit like looking at, say, the figures that the police might recover in terms of goods stolen as a result of burglaries. That figure could go down but if what is happening is that the number of burglaries is going down then, in a sense, that is good news. Overpayment is falling and that may well mean that we are detecting frauds more quickly, that the deterrent effect is increasing and, as we have seen from the Report, the overall level of

fraud is falling. It is an important measure but I do not think, indeed as the Report acknowledges, it is the test by which our efforts should be measured.

Q7 Chairman: You mention overpayments. Why is it when we read this in paragraph 3.20 that in 50,000 cases you did not seek to recover past overpayments? It is a lot of cases, is it not? Some people looking at this might think that your Department is being soft on fraudsters.

Sir Leigh Lewis: I do not think anybody who looks either at this Report in the round or who went out and talked to some of our fraud investigation service staff or to our prosecutors would think that this Department is in any way soft on fraud. I think we are very, very rigorous indeed on fraud. When it comes to overpayment and recovery of overpayments, we are doing better there than we have ever done before in recovering overpayments as a whole from both error and fraud. We are constrained inevitably and, in many cases, rightly by the levels of overpayment we can recover. Until relatively recently, we had some lack of capacity in recovering overpayments. The level of recovery of overpayments this year will be the highest it has ever been in the DWP's history and it will exceed the target which has been set for this year almost certainly. That is a considerable increase on last year's levels. We are trying to tackle this at every single level from stopping fraud and error getting into the system from the very outset right through to when overpayments are identified, seeking to recover them.

Q8 Chairman: Just at the time that we are asking you to do more on fraud and error, we read in paragraph 2.21 that you are being asked to reduce your workforce by 30,000. As it reads here, "... with all parts of Jobcentre Plus, there is localised pressure across all the anti-fraud interventions to reduce staff numbers and cut costs". How are you making progress if your staff numbers are being reduced by 30,000?

Sir Leigh Lewis: Because we are in no different a position really from almost any other organisation of any size in the public or private sectors which is asked repeatedly to do more with less. The trick is genuinely to achieve more with less. Yes, we have made efficiencies in Jobcentre Plus as we have in other parts of the Department. We are on course to meet the 30,000 reduction target in manpower which will be a very considerable achievement. I do not think we have ever been as effective as we are now in terms of our overall fraud effort. I do not want to pin too much on a dozen colleagues who I talked to in one office; it could have been different if I had gone and talked to a different group somewhere else, but they too shared that view. They believed we were a more effective anti-fraud organisation now than we have ever been.

Q9 Chairman: If you are so effective, let us look at paragraph 3.4. It says here, "... the Department recovered £22 million of £339 million known debt ...". That is not a very good record, is it?

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Sir Leigh Lewis: One of those is a flow figure and the other is a stock figure because the £22 million is of new debt coming in as well as existing debt. We want to be better at recovering debt. You are quite right. We want to do better at recovering fraud debt. If I could just note one or two numbers without taking the Committee's time in terms of our overall debt performance, last year in 2006–07 we recovered overall from fraud and error £233 million. That is 30% up on 2005–06. This year as at November we have recovered £184 million and that is on course to meet our highest ever target.

Q10 Chairman: We can only work from the report in front of us. It is absolutely explicit here. It says, "In 2006–07, the Department recovered £22 million of £339 million known debt it has as a result of fraud". That is quite a clear statement.

Sir Leigh Lewis: It is.

Q11 Chairman: Is that inaccurate?

Sir Leigh Lewis: No, it is not at all inaccurate. I was seeking to put it in context. Just taking that specific figure which is not good enough, it was up from £16 million the year before.

Q12 Mr Touhig: Sir Leigh, did you know that ancient Athens had a disability living allowance in the fifth century BC?

Sir Leigh Lewis: I was never a classicist in my time as a student, so no, I did not know that.

Q13 Mr Touhig: The Athenian orator Elysium tells the story of a man who found himself in front of a tribunal for claiming Disability Living Allowance while running a shop and riding around Athens on a horse. Tell me, Sir Leigh, would the DWP call that fraud or customer error?

Sir Leigh Lewis: The very serious point that lies behind your question is that in determining what is a customer error and what is fraud you are inevitably forming a judgment about intent because that is the distinction between those two. Customer error is where a customer in good faith gives us information which is wrong or does not in good faith tell us something that they ought to have told us. Fraud is where they do one or other of those things maliciously and deliberately. There is, as the Report itself says, a grey area between those two and in each individual case you have to form a judgment but those we do audit very carefully and the NAO then audit our audit of the classification that we make between those two types of case.

Q14 Mr Touhig: Perhaps you would not call it either fraud or customer error.

Sir Leigh Lewis: I would. In the end you have to put it into one box or another. I think it is right that we classify a case in the end as either fraud or customer error. What I am seeking to say not very articulately is that in the end it is a judgment call. Some of it is absolutely clear cut; some of it is less clear cut.

Q15 Mr Touhig: The Chairman touched on the fact that your Department's figures for fraud have fallen and the figures for error have risen. You are simply repackaging fraud for error, are you not?

Sir Leigh Lewis: No, absolutely we are not. While we are not doing well enough on error, there is no suggestion whatsoever that we are repackaging fraud as error. Indeed, if the NAO who for this Report have sampled it and do state very clearly that they believe the Department's estimates to be accurate, had found any evidence of that they would rightly hold us to account.

Q16 Mr Touhig: Perhaps we should call it definitional change then?

Sir Leigh Lewis: I do not think I am going to be tempted down this road at all.

Q17 Mr Touhig: I will not try and tempt you. Do not worry.

Sir Leigh Lewis: I am going to say absolutely that we need to do better on error but we are not seeking to reclassify fraud as error.

Q18 Mr Touhig: We see from the C&AG's Report that definitional change is one of your Department's most effective weapons against fraud and error, is it not?

Sir Leigh Lewis: I think what you are referring to there is the fact that, two or three years back, very openly by agreement with the NAO as our auditors and in our annual resource accounts, we recategorised an amount that, in terms of previously being recorded as fraud, was around £550 million. This related to people who had been on primarily Disability Living Allowance (DLA) and whose condition had imperceptibly changed for the better over time. We came to the view, which our auditors shared, that it was wrong to believe that that was a deliberate fraud.

Q19 Mr Touhig: Your Department had a PSA target to reduce Income Support and Jobseeker's Allowance (JSA) fraud by 50% by 2005–06. In fact, you cut fraud from £2 billion in 2000–01 to £800 million in 2005–06, but you did that by the fact that £700 million worth of overpayments you reclassified as definitional error. It is neither fraud nor error.

Sir Leigh Lewis: If you take the target we had to reduce fraud and error by 50%, that was in Income Support and Jobseeker's Allowance so it was not affected by the definitional change and we met that target.

Q20 Mr Touhig: 60% of your reduction of £1.2 billion is attributable to a definitional change.

Sir Leigh Lewis: If you take our starting point which was £2 billion and where we now are, £800 million, and remember that is against a background of a rising total of benefit expenditure overall, then it is the case that £550 million of that reduction, very openly and very clearly, has been because of a re-categorisation of what had been previously regarded as fraud as no longer being fraudulent.

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Q21 Mr Touhig: The Report here makes it £700 million. It says that the Department conclude that these overpayments of £700 million should no longer be classified as either fraud or error, so a 60% reduction at a stroke of a pen.

Sir Leigh Lewis: No. Just to clarify on the £550 million versus £700 million, we estimate that, of the £700 million change, £150 million had previously been classed as error and £550 million had previously been classed as fraud. Another way of looking at this—and it has been completely open—is that we were overestimating fraud for a considerable period before, so it is true to say—the Report is very clear and there is no attempt to pretend otherwise—that a part of the reduction has been through definitional change.

Q22 Mr Touhig: The Report makes that clear. Coming back to the point you explained to me a moment ago, in 2004–05 you reviewed your measures for fraud and error and found that health conditions of some customers had improved gradually over time and although they could not be expected to self-diagnose that their level of disability had changed it affected their entitlement as a result and they were still being overpaid. Your Department concluded that these overpayments, £700 million, were no longer error or fraud. They were still overpaid.

Sir Leigh Lewis: We concluded with our auditors—this was very thoroughly discussed and very clearly stated in our Resource Accounts at the time—that until the point where we had cause or our customers had cause to talk to us it was neither fraud nor error because the customer could not reasonably have been expected at that point to have realised themselves that their condition had improved to the point where they might no longer qualify for DLA at the rate or at all that they were receiving it; and that it was therefore right and appropriate no longer to regard that sum as either fraud or error.

Q23 Mr Touhig: You live in a different world if you think that they may not realise their conditions are improving while they still continue to claim benefit. That is not my experience of the cases that I have. Your Department had a PSA target to reduce its fraud and error. You met the target but you only met the target because of the definitional change. It is cosmetic. You have a target. The Chairman and I were discussing targets the other day. We perhaps have different views on targets but you have yours. You are ticking the box because you have changed the rules. You have changed the guidelines. You just said, “This is no longer fraud. This is no longer error. This is definitional change” and, boom, there is £700 million and therefore we have met our target that we have agreed with the Treasury.

Sir Leigh Lewis: I do not think I am doing well in explaining this sufficiently clearly. Let me just have one more go. The SRO2 target which was to reduce fraud and error in income support and JSA was not affected by this definitional change because it affected a different benefit, disability living allowance. That target was met and was not affected

by the definitional change. The overall reduction in fraud from £2 billion to £0.8 billion has been affected by that definitional change to the extent of £550 million, but remember two things. One, that probably means that we were always overestimating fraud in those earlier figures and, secondly, benefit expenditure as a global figure has continued to increase over that period.

Q24 Mr Touhig: It is still my contention that definitional change has greatly helped you reach your target but perhaps we will not agree on that. The Report also tells us in paragraph 1.13 that the Department does not exactly know how much it has spent in implementing its anti-fraud strategy. Why is that?

Sir Leigh Lewis: I think we do know what we have spent.

Q25 Mr Touhig: The Report says you do not. Have you disputed the Report?

Sir Leigh Lewis: No. The Report is of course an agreed Report. What is in a sense at issue between us is that we know very clearly what we spend on each element of our counter fraud strategy. As the Report very clearly says, that is value for money and the Report says that all of those activities should continue.

Q26 Mr Touhig: I would just point you to paragraph 1.13: “The Department does not know the exact costs of implementing the strategy . . .”. It is like being pregnant. Either you are or you are not. Either you know or you do not know and the Report is saying you do not know.

Sir Leigh Lewis: I do not dispute the Report, because I would not have signed it off as Accounting Officer. I was seeking only to put that comment into context.

Q27 Mr Touhig: Your Department for the 18th year has had its accounts qualified. Are you having a coming of age party?

Sir Leigh Lewis: I would quite like to say something on this because I think it is becoming increasingly indefensible on almost every test that we have a Department whose accounts have been qualified for nearly 20 years. There are two issues going on there, just to be absolutely clear with the Committee. One is that both levels of fraud and error remain too high and we need to bring them down. This Report says that fraud may be close to being at an irreducible minimum. Error most certainly is not. That is our first responsibility. The second is—I have been very clear with this Committee before—if we continue to have the current threshold of 1% of expenditure being the benchmark, and the only benchmark, by which qualification is determined, this Department’s accounts will go on being qualified for all time because I believe it is inconceivable that we will ever reach a point where the level of incorrectness will ever be less than 1% of benefit expenditure, in a system which is hugely complex. Sir John Bourn has now retired but we have been having a very good dialogue with the National Audit Office because I want to achieve a different basis on which we can

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look at the qualification of the Department's accounts which gives this Department a serious opportunity to remove that qualification. I said on my very first day in this Department as its Permanent Secretary that I wanted to be the Permanent Secretary who was present when that qualification was removed. There is not I think a single member of my senior management team who does not know that that is my absolute determination and ambition, but we will not do that—just to be clear, if we are having a serious conversation—while the present test for qualification remains. There is not an organisation of any standing dealing with mass financial transactions in the private or public sector that is able to reduce its overall losses for fraud and error to below 1%.

Mr Touhig: You give a very clear explanation. I am sure the NAO will take note of that as well.

Q28 Chairman: I think the NAO should have an opportunity to comment. I think it is very important. Apparently discussions have taken place. Should we recommend changes to the 1%? What is your view?

Mr Burr: I have not myself had discussions with the Permanent Secretary. Yes, we have had discussions. It is only fair to say that the Accounting Officer has expressed a very clear view of the matter. We do not think we want to be in a situation where we are removing the qualification simply by moving the goalposts. How far we can progress in terms of giving a rather clearer message on progress made and the materiality of the error for Parliament's attention is the area in which the debate is progressing.

Q29 Chairman: I will not ask you to comment now because it is not fair but I think it would be useful for the Committee to know what sorts of figures we are talking about. 1% has been impressive. Are we now talking about 2%, 1.5%? Sir Leigh, what is your view? Equally we cannot make it such an easy target or there is no point.

Sir Leigh Lewis: I am pleased to have this as a really serious conversation. If we are to have a different target, first of all, I want it to be one that is really stretching my Department but, secondly, I want it to be one that is capable of being achieved. I have run large organisations in the Civil Service as you know, Chairman, for most of my recent working life. What I know about targets is that if you have a target which people believe is achievable then they will go to incredible lengths to achieve it. If you have a target which people believe can never be achieved then you cannot get that degree of buy in. The conversation which we have been having—it has been a good conversation with Sir John before he retired and colleagues—is whether there is another way of approaching that which is looking at the separate benefit streams and asking a question about the level of materiality which we might attach to each. I simply believe that there are two responsibilities here. There is a responsibility on me and my Department to be able to demonstrate to this

Committee and to Parliament that we are doing everything that could reasonably be expected of us to bring down levels of fraud and error. Equally, I think there is a responsibility perhaps, if I dare say it, on this Committee and on Parliament to give us a threshold which is capable of being achieved.

Q30 Chairman: Do you want to do us a note on this?

Sir Leigh Lewis: I would welcome doing you a note on that.¹

Mr Burr: It is ultimately a professional audit judgment as to what level of error should be brought to the attention of Parliament. We have not put into circulation any other figures than the ones mentioned but there is a question as to whether one can devise a more illuminating way of displaying this for Parliament.

Chairman: You will advise us. Thank you.

Q31 Dr Pugh: It is good to know it is not only the EU that does not get its accounts signed off year after year. £106 million is the total figure, is it not, for what overpayments stand at at the moment? What we were moving towards in the last few minutes was some sort of sense from you of how low that could go, because there will never be no fraud; there will always be some fraud. Can you, by using international comparisons, work out what level fraud can be got down to if you implement the most efficient practices and carry out all the advice from the Committee of Public Accounts to the letter? Is there a level at which you cannot get any lower at all because nobody internationally so far has been able to do it?

Sir Leigh Lewis: Will you bear with me if I just give you a little bit of factual background and then absolutely address the heart of your question? One of the quotes in the Report is that the UK has levels of social security fraud which are similar to those in comparable countries but, as we reported in 2006, the DWP has a better understanding than other nations of the problems and is doing more to tackle them. The NAO carried out a benchmarking study that was undertaken for them by an organisation called Rand Europe in 2006 which looked at eight countries similar to the UK in terms of wealth and diversity of population. I do not want to take up more of your time than you would wish but I could tell you the countries. The interesting thing is that a number then at least—I cannot speak for now—did not seek to measure levels of fraud and error either at all or globally. Of those that did, none appeared to have a level which was lower than ours for fraud and error as a totality. If you take fraud, the Report itself says that we may now be approaching a position where it will be difficult to reduce the level of fraud—I draw a sharp distinction between that and error—substantially further. We are at a point where only a little over half a penny in every pound that is paid out is paid out fraudulently. As the Report says, any welfare system will always be susceptible to people who are seeking to defraud it. No system will be capable of ever preventing that.

¹ Ev 23–25

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Q32 Dr Pugh: Do international comparisons show there is any connection between the complexity of the system and the level of fraud found in it, or is that not a viable correlation?

Sir Leigh Lewis: I certainly think it is a very viable correlation when it comes to error. We have had this conversation in the Committee before. When it comes to error committed both by customers and by our staff, there absolutely is a correlation between the complexity of the benefit system and levels of error. I think fraud is different because the defining characteristic of fraud, as I was saying to Mr Touhig, is that the person is deliberately doing something that they know to be wrong. Therefore I do not think they can cite the complexity argument in defence of acting fraudulently. Absolutely it can be cited in defence of unwittingly failing to interpret the rules correctly.

Q33 Dr Pugh: Coming to sanctions now, I have some experience of these. I have had a court case, not as a person who was a defendant but as a witness, a very high profile one which involved a former Mayor of the borough in which I reside. I was very impressed by the strength of the case presented by the DWP and the rigorousness of it but also by the enormous cost of it. I was witness number 52 and I was not expected to be called but I was. It seems you are quite successful with court cases. How many people plead guilty when threatened with prosecution by you? What percentage?

Sir Leigh Lewis: I will just check this as we speak but from memory the figure for those who plead not guilty is about one in five of the cases that are prosecuted or go to our prosecution division that are brought forward for court proceedings are contested.

Q34 Dr Pugh: I presume most of them are defended cases, are they not? What is the average cost of a court case?

Sir Leigh Lewis: We could do the maths. The total cost of our prosecution division—that is the last piece in the chain—was about £9.5 million in 2006–07.

Q35 Dr Pugh: The average cost of a case?

Sir Leigh Lewis: No. That is the total cost of running our prosecution division as a whole in 2006–07. In that year we had 6,756 successful convictions and brought court action in 7,483 cases. You are right to say that some cases are very expensive to prosecute and bring to court. We had just one reported in this morning's papers of an individual sentenced to three and a half years' imprisonment as a result of a major fraud, but that case and cases of a similar nature can inevitably be very expensive.

Q36 Dr Pugh: Your success rate is so high I ponder why you do not bring more cases to court. I can only assume that the sheer cost of doing so deters you even when you think you have a better than average chance of succeeding.

Sir Leigh Lewis: No, it does not. We are not cash constrained in that way. Our prosecution division accepts every referral to it that comes from the Fraud Investigation Service which reports to my colleague, Neil Couling. It considers whether a prosecution should go ahead and it applies two tests in that respect. It applies the evidential test that all prosecuting authorities apply: is there sufficient evidence to make it more likely than not that this case will succeed if prosecuted? It applies a public interest test because there can sometimes be other reasons why a prosecution may or may not be in the public interest, but we are not cash constrained in that sense. Clearly, there are some resource implications in all of this but we are not in a position where our prosecution division is saying, "If we had more resources, we would prosecute more cases".

Q37 Dr Pugh: Could you give us a note on the breakdown? Obviously there are two sorts of resources, resources for the trial and resources for processing the investigation. There were in the case I mentioned earlier considerable resources being allocated to the investigation as opposed to the prosecution. Can you give us a breakdown of that?

Sir Leigh Lewis: I will try and do my best to give you a breakdown of both of those things.²

Q38 Dr Pugh: A point made is that, on living together fraud—this is absolutely outrageous, when people see somebody claiming full benefits when they are supported by a person they are living with or a partner who is fully in work—you seem somewhat reluctant to bring these to court compared with other sorts of cases, or your success rate is rather lower. Is that deterring you from following these sorts of cases up?

Sir Leigh Lewis: I think it is something that you might want to hear a little bit from my colleague, Neil Couling, on. It is described as perhaps one of the Department's enduring urban myths. Actually, we are just as determined to bring living together cases to court as any other sorts of cases. Nearly 2,000 were referred to our prosecution division in 2006–07 and the numbers have been increasing sharply.

Mr Couling: The Report itself is more questioning of following up living together.

Q39 Dr Pugh: It is the NAO, not you?

Mr Couling: In 2005–06 we achieved 2,300 sanctions on living together cases. Last year that increased to 3,782 and to December we had already exceeded that at 3,800. Because it is an area of loss, I am directing my officers at it. It is very tricky. I was in an appeal tribunal on Thursday and we lost the case because it is an area where it is quite difficult to prove in some cases, but we are going after it quite hard.

Q40 Dr Pugh: It may be the NAO were looking from the pure point of view of accountancy and I am looking at it more from the point of view of what outrages the citizen, that they want to see addressed.

² Ev 21

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Administered penalties are not awfully good, are they, as a solution to the problem of fraud, or they do not appear to be. A lot of them do not get paid and when they do get paid they are fairly pitiful. Do they have any subterranean effect? Do they change the behaviour of the fraudster? In other words, though they may not pay a great deal back, they do not do it again, or do you identify people who serially get administrative penalty after administrative penalty until finally you have to take them to court?

Sir Leigh Lewis: First of all, it is important to say that we use two sanctions which are less than a full blown prosecution, namely administrative penalty and a caution, where the amount of the overpayment is less than £2,000 and where there are no aggravating circumstances. If there were aggravating circumstances, say, even below that level—supposing forged documents or something like that—we might well decide to mount a prosecution in any event. I think it is also true to say that we take a very, very different view, if I can put it like this, of a first offence from a second offence, if you see what I mean. If somebody is known by us to have received either a caution or an administrative penalty previously and there is another benefit fraud or alleged benefit fraud brought to our attention, we are much more likely to prosecute a second time.

Q41 Keith Hill: Your Department is under a lot of pressure, is it not, from the red top press? There is nothing like welfare scroungers that gets the red tops salivating. I dare say that when you are having a pint in the saloon bar at the Bull and Bush practically everybody around you knows of dozens of cases of welfare scroungers. Are you therefore rather surprised that only one in 200 of the population has taken the trouble to report a case on the hotline?

Sir Leigh Lewis: I am rather pleased to say that most of my good friends give me an easier time when we are off duty and do not talk to me all that much about the performance of the Department. To take your absolutely key point, our hotline is one of our most successful features. Last year it received over 200,000 calls; this year up to December 171,000 calls. That is approaching 1,000 calls a day. It is open from seven in the morning until 11 at night on every single day of the week, including Sunday. The target is that 70% of the calls result in a referral to our fraud investigators or to our customer compliance teams. Our hotline is a very, very successful part of our overall counter fraud strategy. Perhaps I am speaking almost personally here. I neither want a society in which people are for ever making unsubstantiated allegations against neighbours or others, nor do I want a society in which people who have a genuine belief that someone they know may be committing fraud is in any way inhibited from passing that information on.

Q42 Keith Hill: I agree with you about that. Do not get me wrong. I do not for one moment condone fraud but I think it is quite curious that, although it may be a success and you may have 1,000 calls a day, only one in 200 of the population has reported a

fraud on the hotline. Can we turn to paragraph 1.1 where it is reported that in 2006–07 there were 614,000 cases of suspected fraud identified? How do you derive that figure?

Sir Leigh Lewis: That figure comes from our management information systems and it is derived from the number of cases referred either to our fraud investigators or now to our customer compliance teams.

Q43 Keith Hill: It is an actual number?

Sir Leigh Lewis: Yes, we believe it to be the actual number.

Q44 Keith Hill: You are saying to me that you think that, out there, there are over 600,000 people with criminal intentions with regard to the benefit system?

Sir Leigh Lewis: No. That is taking it a bit further because that means that that is a referral into our system. That means that somewhere there is a suspicion or an allegation. For example, someone has alleged to our hotline that there is a fraud. Our data matching may have thrown up, as it does with a considerable number of cases, an apparent inconsistency; or it may be that a member of staff has reason to suspect that somebody—

Q45 Keith Hill: It is not actually a real figure about the number of fraudsters out there?

Sir Leigh Lewis: No, it is not a figure about the number of fraudsters. It is what it says, in effect, on the tin. It is the number of cases that are referred into the system and which are then investigated.

Q46 Keith Hill: The 600,000 are 3% of the overall number of benefit recipients but in reality the number of fraudsters is likely to be lower than 3%?

Sir Leigh Lewis: You can take it, can you not, that not all of those 614,000 cases last year were ones where we concluded that a fraud had actually occurred on any scale, because that is the whole nature of the process that then goes on, which is either an interview carried out by one of our customer compliance teams or a full blown fraud investigation.

Q47 Keith Hill: Again, do not get me wrong. I do not want to condone fraud for one moment but, to take up your own words about fraud and your correct moral position, you said that of course it was right to pursue those carrying out frauds because they are people doing something wrong deliberately. They may be doing something wrong deliberately but they are not very good at it, are they, really?

Sir Leigh Lewis: They span the whole spectrum, do they not? We have people who are committing serious, organised and highly professional attempts to defraud the benefit system.

Q48 Keith Hill: I would like to go there in a second. If you look at Figure 25 for example on page 33, which identifies the average overpayment per referral, for the hotline it is £77 and for the general matching service it is £282. For the housing benefit

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matching service it is £332. Elsewhere in the NAO Report, it is stated that customer compliance reviews led to changes in benefit in 95,000 plus cases. The average actual overpayment was £48 per case. These are not significant sums of money, are they?

Sir Leigh Lewis: No, they are not, if you take the average, huge amounts of money. The point I was making here was that in a sense we span the whole gamut from somebody who is doing something which they know is wrong but nevertheless the amounts involved are relatively small—neither you nor I are condoning that but we are acknowledging that—to people at the other end of the spectrum who are seeking to defraud the taxpayer.

Q49 Keith Hill: Can you just talk a little bit more about large, organised fraud because it is referred to in the NAO Report but not dwelt upon.

Mr Couling: There are gangs of people engaged in large scale, organised fraud. Typically, they are not just looking at social security. There might be other aspects of fraud. A quite regular one is the theft of credit cards from the post. They are then used as ID to cash our giro cheques that may well be stolen and typically there could be gangs of people involved in passing these giro cheques out across a number of Post Offices. To try and combat that, we have just completed the roll out of UV lamps in every Post Office now so that you can see where the cheques have been altered. The criminal mind is very creative and will come at us from almost any angle.

Q50 Keith Hill: How much in a year do you think is being purloined as a result of large, organised fraud?

Mr Couling: Our movement to paying through bank accounts has really reduced the amount of money that we lost for example to cheque fraud. That is down to under £100,000 a year.

Q51 Keith Hill: £100,000?

Mr Couling: £100,000 a year on the giro cheques we have recovered. We have just had a couple who had 78 identities put in prison and they defrauded us by about £1.8 million, from memory, so it really does vary.

Q52 Keith Hill: How many people do you think are at this game?

Mr Couling: That is difficult to say. Clearly, as criminality evolves, that will change. We defend the system here and they move to the next bit, so it is difficult.

Q53 Keith Hill: How many prosecutions did you engage in last year on large scale, organised fraud?

Mr Couling: By our organised teams, I think nearly 900, from memory.

Q54 Keith Hill: Can you give us a note telling us how many, what sort and how much was involved?

Mr Couling: Definitely.³

Q55 Keith Hill: Sir Leigh, this is really for you to satisfy my entirely vulgar curiosity. If you look at Figure four on page 13, it is revealed that fraud committed by customers living abroad is equal top at £74 million. Who are these characters living on the Costa del Crime, perpetrating these frauds?

Sir Leigh Lewis: This is a serious issue for us and one that we already address very seriously. There is a specialised team within the Fraud Investigation Service. There are two types of fraud which may fall under what we loosely term the abroad fraud position. One is where a person was legitimately receiving a benefit abroad for example and that could well be and often will be a state retirement pension which somebody is perfectly entitled to receive while they are abroad; but a fraud which we know does occur is that person dies but deliberately we are not told that. Another person—it could be a family member or a different person—goes on collecting that money knowing that they are doing so unlawfully. That is one kind of fraud that can happen. The other which can equally go under that heading is where the conditions for receipt of benefit do not allow someone to receive that benefit while they are abroad for a lengthy period; but they deliberately fail to inform us when they go abroad and therefore continue to claim that benefit unlawfully.

Q56 Mr Dunne: It is clear from Figure two on page seven that while you have made progress, as the Chairman said at the beginning, on tackling fraud there has been a corresponding increase in error from I think £1 billion in 2001–02 to £1.9 billion in 2006–07, by deduction from that table. This Report is on fraud rather than error, but can you tell us a little bit about what you have been doing to reduce the level of error?

Sir Leigh Lewis: Yes, I certainly can. I have already said to the Committee that we have established an official error reduction task force. We did that in January 2006 and we do think it is now correcting weekly errors of over £2 million which would otherwise have continued. We published an error reduction strategy in January of last year. Its aim—an ambitious aim—is to deliver savings of around £1 billion by 2012. The three key elements of that strategy are preventing new error from entering the system in the first place. For example, that includes implementation of IT enhancements to stop benefit payments as soon as a customer's condition of entitlement expires. Secondly, ensuring that customers and our staff comply with and understand the benefit rules. That is better training, simplified guidance for our staff. It is better leaflets—we have talked about that in this Committee—and notifications for our customers. Finally, it is correcting the error that is already in the caseload using data matching technology to target the high value errors in the system. We are doing an awful lot in all of these regards. I believe that it is having an impact. One of the slightly frustrating things is there are time lags in the statistics which mean that I cannot yet guarantee to this Committee that all

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those steps are having an impact, though I take some comfort from the fact that, while error is too high, its overall level is not rising further.

Q57 Mr Dunne: Although the absolute level is rising. Do you see any relationship between the increase in error and the increase in complexity of the benefit structure that we have?

Sir Leigh Lewis: As I said before, I think it would be just wrong to suggest that there is no link. The more complex a system is, the more likely it is that staff, no matter how well intentioned and well trained, will make mistakes in implementing that system. It seems to me it must be the case that customers who do not have any dishonest intention will nevertheless find themselves unwittingly making errors. One of the initiatives that we are running in our Department for all sorts of reasons is a back to the floor initiative where the senior managers in the Department spend a week working on a customer facing activity.

Q58 Mr Dunne: Are you doing that as well?

Sir Leigh Lewis: Yes. I personally spent a week last July working on our disability and carers' helpline in one of our Blackpool offices, taking calls from members of the public inquiring about Disability Living Allowance and Attendance Allowance. That brought home very much to me that these are complex benefits, complex for our staff to administer and complex for our customers to understand.

Q59 Mr Dunne: Given the emphasis that you personally place on trying to reduce the level of fraud and error, I note from pages 24 and 25 of the Report that there is no single fraud and error tsar within our Department. Mr Couling is the Director of Fraud and Error just within one division, within an important division, Jobcentre Plus. Do you think you ought to be trying to provide some form of management structure to focus on this across the entire Department?

Sir Leigh Lewis: If I may say so, I have such a person. She is sitting to my left and I regard Shirley Trundle as overseeing that whole effort to reduce error in the Department.

Ms Trundle: I have an entire division of staff who work on the overall strategy within the Department for driving down fraud and error, looking right across the piece at all of our agencies and at the shared functions like data matching that we have to support all of the agencies in their work. The structure was further emphasised with the new performance framework that we have for government departments and the introduction of departmental, strategic objectives. We have an objective within DWP—it is departmental, strategic objective six—which is to pay our customers the right benefit at the right time. I am the Senior Responsible Officer within the Department for that objective and will therefore be responsible for ensuring that we have a coherent structure of targets below that and understand precisely what the delivery chain is that will enable us to deliver against that objective.

Q60 Mr Dunne: When were you appointed to that role?

Ms Trundle: I am trying to remember precisely when the departmental strategic objectives were published. I am afraid the date has gone from my mind but it was to coincide with the creation of that objective.

Q61 Mr Dunne: Was that appointment made, Sir Leigh, before or after this Report was commissioned by the NAO?

Sir Leigh Lewis: It was before.

Q62 Mr Dunne: Why is it not referred to in the Report if you have this responsibility?

Sir Leigh Lewis: Perhaps because we just did not, commenting extensively on a very complex Report.

Q63 Mr Dunne: You had the opportunity to comment on this Report and in paragraph 2.17 it specifically says that the kind of fraud activity spread across the Department and Jobcentre Plus with six different directorates. This surely would have been an opportunity for you to have pointed out that they all report through to Ms Trundle in some way.

Sir Leigh Lewis: That is a very fair point. Perhaps we could have done better in making that point but we did discuss the Report with NAO colleagues and we sought to try and ensure that it was a fair and accurate report, which I believe it absolutely is. The key, underlying point is that Shirley Trundle does carry a direct responsibility, reporting to me and to ministers, for the overall fraud and error reduction strategy in the Department.

Q64 Mr Dunne: Ms Trundle, perhaps I could ask you in that case, having read the Report and seeing some of the criticisms made here about inconsistent delivery across the country, what are you seeking to do about it?

Ms Trundle: I think the key point is that we need to translate the very high level objectives for the Department into a set of coherent targets that will actually make sense at the appropriate level where they have to be implemented and managed. Then we need an effective system of reporting back so that regional differences can be identified and individual managers can be challenged about those.

Q65 Mr Dunne: Thank you. Sir Leigh, just turning to Appendix Two, page 39, looking at previous recommendations of this Committee on this issue, the comments made against the first conclusion from the 2003 review are that: "Management information remains generally inconsistent and poor across interventions". Could you comment on why that remains the case some five years now after those recommendations were made?

Sir Leigh Lewis: I think our management information is now better, but we are making a step change improvement almost as we speak in the fact that the introduction, and it will be introduced nationwide by the end of this current month, of FRAIMS (Fraud Referral and Intervention Management System), which is our new

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computerised Fraud Management System, will actually revolutionise not just some of the aspects of the handling of fraud cases across our network but will dramatically improve our management information. So it may indeed be that it has taken a time in coming, although there have been improvements since the earlier NAO Report, but we are going to have very shortly at our disposal a very substantially improved management information system and it does more than that.

Q66 Mr Dunne: My last question is on the next page there is a recommendation in relation to benchmarking performance against other countries and the NAO issued a report in 2006 on this subject. Is there anything you can learn from international experience which will allow you to persuade the NAO that the steps you are taking should ensure that your accounts do not need to be qualified?

Sir Leigh Lewis: It is very much a venture that we supported the NAO in undertaking. I am a strong believer in benchmarking because there is always absolutely something to learn. We have also looked at comparable organisations in the financial sector of if not quite equivalent scale then of serious scale here in the UK. I think the point of that report, and it almost brings us back to our earlier conversation which the Chairman asked me to write to him to about, is it basically says actually we have a more robust system of seeking to measure overall levels of fraud and error than in the comparable countries which the NAO benchmarked us against, those eight countries, and overall we have a more effective strategy in seeking to tackle this. What I think it also says is that there is no country out there which has any kind of magic wand where they operate in a complex society with millions of individuals and inevitably complex welfare systems which has somehow miraculously arrived at levels of fraud and error which are infinitesimally low. That is why I do want to move this debate about the qualification of our accounts from where it is at the moment, which I just regard as a sterile debate, to a place where we have a set of challenges, which I do not want to be easy for my Department for one moment but I want them to be challenges that we are capable of delivering otherwise this Committee and its successors will be having the same debates with me, and no doubt my successor and successors, for years and years to come.

Q67 Chairman: Well, exactly, the same debates. We said here, and it was referred to by my colleague, in Appendix Two, "Reliable information on costs and results is required . . ." That was a previous PAC conclusion and you agreed with that, that the Department intends to put in place systematic benchmarking. When Mr Touhig put this question to you, you first of all denied it, and when he referred you to paragraph 1.13 you had to accept what Mr Touhig put to you, that the Department does not know the exact cost of implementing the strategy. There is no point just going on a roundabout, is there? Next time we make these recommendations

on the management information systems you have actually got to carry out what you promise to do otherwise we are wasting our time, are we not?

Sir Leigh Lewis: Chairman, with great respect, I think that is a little harsh actually. If you take the recommendations from the earlier reporting in the round, in every key respect we have made a lot of progress against those.

Q68 Chairman: Why does it say in the NAO Report: "Management information remains generally inconsistent and poor across interventions? Improvements have been made . . ." I agree, but generally it is inconsistent and poor. How do you explain paragraph 1.13, which is devastating?

Sir Leigh Lewis: Because while the actual underlying reality is that we have reduced fraud very substantially, we have not progressed as far as you would have wished and I would have wished in setting out and improving our management information though, as the Report says, improvements have been made. Although it may have taken too long, the introduction of our FRAIMS system, which is not jam tomorrow, which will now be in place country-wide by the end of this month, will bring about a step change in the quality of our management information.

Q69 Chairman: Okay. I just want to ensure that these reports really are meaty and when you accept them then something happens. I am sure you agree with that, do you not?

Sir Leigh Lewis: I do and I hope, Chairman, that your experience of this Department, and of me as its Accounting Officer, is that I do take the recommendations from the NAO Reports very seriously.

Chairman: Thank you for that.

Q70 Geraldine Smith: Can I begin by congratulating you, I think you have made some good progress. I accept that some of it is down to redefining what is classed as fraud but, even so, it is very, very difficult because you deal with very complex benefits at times. I think the problem we have got is if you cannot tackle benefit fraud then it undermines our welfare state. Sometimes out there the public think everyone who is claiming benefit is doing something a bit dodgy, a bit like MPs at the moment I guess. How do we change this perception to get across to the public that the vast majority of people are entitled to the benefits that they are claiming?

Sir Leigh Lewis: I agree with a great deal of your question and I have no more a magic wand to wave in answer to it than I suspect you have yourself. I think there are two things that we can and should do, all of us. There are many responsibilities here. One, first of all, is to seek to persuade and reassure the public that we are being as effective and as rigorous in bringing to justice those people—a very, very significant minority of people—who are seeking to defraud the system. The public are entitled to believe that is the case. Secondly, we then need to put that into context in terms of the proportion of total individuals claiming benefits and total expenditure

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on benefits that is being spent fraudulently or claimed fraudulently by those individuals. We have to go on, for want of better, telling it as it is actually. I share your frustrations at times, that it is not told as it is.

Q71 Geraldine Smith: I am quite shocked because you spent quite a lot of money, £154 million in 2006–07 on the counter-fraud strategy, and recovered £106 million. That is not very good value for money. A couple of weeks ago we were looking at Corporation Tax in this Committee and we found that they only spent £28 million on staff costs and they retrieved £23 billion in Corporation Tax. We also found that there are hundreds of companies not paying any. I think maybe we should be increasing their staff and reducing yours if there is such an imbalance here. Again, I am not blaming you because you are dealing with very complex benefits and large numbers of people, and I do accept that, but what more can we do to prove to the public that this money is being well spent?

Sir Leigh Lewis: I do, of course, accept the underlying thrust of your question but can I just say once again, at the risk of wearying the Committee, that one-liner that a fraud investigator said to me personally last week, “The better we get, the less overpayment we record”. It is not a perfect measure. Overpayment takes no account of the deterrent impact of our activities. Overpayment takes no account of the future benefits we stop from being paid fraudulently. It only records the amount being paid up to now. In many ways, I think this Committee would want in the future to see our overpayments falling rather than rising. It is a curious measure in that sense. If that was going to be combined with future estimates from ourselves validated by the NAO and it showed overall benefit fraud continuing to fall you would expect overpayments to continue to fall. It is an important measure, I am not in any sense decrying its importance, but it is not, and I want to say this very clearly, the sole test of value for money, as the Report makes clear.

Q72 Geraldine Smith: Can I ask you about a few specific benefits. Housing Benefit to me seems to be a benefit that could be wide open to abuse and, indeed, in my own town, a seaside town, I have seen not evidence but suspicions where it has been abused and sometimes on a large scale. Is it a good benefit? Is it the benefit that really needs changing here?

Sir Leigh Lewis: I do not think I would want to attempt to go into the wider question of the nature of Housing Benefit. What I can do is say that it is very important for all the reasons you have said. We have a separate stream of work which focuses on Housing Benefit fraud. It is separate because Housing Benefit is administered primarily by local authorities so they have their own investigators in local authorities and we work very much to support them and with them. The overall level of Housing Benefit fraud has almost halved since the baseline year for which we have numbers, which is 2003. It was then at about 1.9% of total Housing Benefit and it is now at about

1%. We have seen an improvement there just as we have seen an improvement in other benefits. We have a separate strategy with local authorities for reducing Housing Benefit fraud still further, but it is too high, it remains too high, and we and local authorities want to see it lowered.

Q73 Geraldine Smith: Another area of concern to the public is about people living together and claiming not to be. What can you do about this? Again, it is a difficult area but I think it is an area that really concerns the public and does get their backs up if they are working very hard and they think there may be people who are abusing the system.

Sir Leigh Lewis: Just to echo something which I think Neil Couling said, we take this very seriously. We are devoting probably more resources than ever before to tackling this kind of fraud and we are bringing very substantial numbers of prosecutions and imposing other sanctions in such cases. It is more difficult because you are delving into one of the greyer areas of human behaviour here. If you will, let us suppose there is a single parent who is receiving benefit as a single parent. There is the spectrum from that single parent occasionally welcoming someone else into their home for an evening, if you see what I mean, right to the other extreme where to every intent and purpose they are living with that other person as a single household. It is not always easy to actually establish where on that spectrum a particular case lies. That is why it is one of the skills of our investigators, but also at times difficult, to identify where those cases are clearly fraudulent. Be in no doubt that where they are then absolutely we will prosecute.

Q74 Geraldine Smith: I find that advertising must be very important because, again, it is sending out the message that you are serious about dealing with benefit fraud where it occurs and you want the welfare system to work for the people who need it. Should you not be doing more in terms of advertising? Do you do enough?

Sir Leigh Lewis: We are doing a huge amount. I doubt there is a Member of the Committee who has not seen or heard one of our “No ifs, no buts” advertisements in recent months. If there is such a Member of the Committee I would suggest rather humbly that they probably have not been watching any television or listening to any radio. There are posters and door-drops as well. Advertising is very important. To date, we have spent just over £8 million on the current campaign, “No ifs, no buts”. There is a lot of evaluation evidence coming through that it has been very effective. It is aimed really at trying to deter people from going ahead who may be on the cusp of committing fraud, or those people who may be acting fraudulently but who have, as everybody has, an opportunity to stop. It makes it very clear, one, that we will not accept lame excuses as to why someone was acting fraudulently and, two, that we are very effective and the chances of you being caught and sanctions or prosecution taken against you if you are acting fraudulently are very high. It is interesting, just to give you one statistic

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from the evaluation, that the proportion of people thinking benefit fraud is “easy to get away with”, which was at about 40% of respondents at the start of the current campaign, is now down to barely over 30%, so there is some real evaluation evidence that this campaign is having an impact.

Q75 Geraldine Smith: Finally, can I just ask you about DLA. That seems hard for you to monitor because people’s health may improve. What sort of follow-up is there to look at people who claim DLA?
Sir Leigh Lewis: Again, we discussed this earlier in this hearing. DLA is inevitably a benefit in which there is a greater degree of subjectivity than in some others, but increasingly our Disability and Carers Service, which administers DLA, does operate a range of checks and controls to try and ensure two things: one, that people who are entitled to DLA do receive it and at the rate to which they are entitled because, like all benefits, there is an opposite problem of people who may be entitled who are not receiving it, and we should not ever ignore that; but, two, equally that people who may not have been entitled ever properly, or whose entitlement may have changed because thankfully their condition has improved, cease to claim or claim a different rate of benefit where appropriate.

Q76 Angela Browning: My first question is actually for the NAO. I wonder if you could look at Figure 6 on page 15. Attendance Allowance is not listed there and I wonder if it has been rolled up with DLA as it is effectively the DLA for people of pensionable age.

Mr Lonsdale: I think it is under the “Other unreviewed benefits”.

Q77 Angela Browning: Sorry?

Mr Burr: “Other unreviewed benefits”, the last line.

Q78 Angela Browning: I just wanted to check that the DLA figure, which is what I want to ask Sir Leigh about, is just DLA or whether it includes the other as well, but it is just DLA. Sir Leigh, could I ask you about the Disability Living Allowance. I have noticed in my casework quite a change in this benefit in recent years inasmuch as far more people are being encouraged to apply for it, very often for reasons which I find I would not have recommended they apply for it because if they have a period of disability it is quite clearly only a temporary situation. In the small footnote, footnote 6 on the opposite page, page 14, it states: “The Department changed its fraud and error measurement methodology around Disability Living Allowance, whereby it identified a specific group of cases in which payments were correctly made based on the case information . . .” *et cetera*. Could you just explain to me what it is you have done to identify fraud in DLA that prompts that footnote?

Sir Leigh Lewis: Let me seek to do that. First of all, that was a definitional change, the one we have discussed in this hearing, whereby some benefit payment which had previously been classed as either fraud or error, was agreed by ourselves and the NAO, as our auditors, was no longer right and it

should be classed neither as fraud nor error because at the point of its receipt it was neither and it was only at the point where, if you will, we and the customer became aware that there was a significant change in their condition that it could be reclassified and their DLA entitlement should be reviewed. On the wider question of DLA, and I ought to say honestly to you that I do not regard myself as a huge expert on a very complex benefit so it may be I should write to you if your questions reach a level where I cannot properly answer them, DLA is a complex benefit. We want a balance, do we not, a line. It is absolutely right, as I was just saying, that where someone has an entitlement to a benefit that they are not claiming we should, as a society, do everything we can to make them aware of that benefit and to help them claim it, and I have appeared before this Committee talking about Pension Credit, for example, on just that basis. It is also true that we live in a world where there are some people and some organisations who will say, “There’s a benefit, let’s see if you can get it”, if you see what I mean, and that can be a perfectly legitimate thing but at times it can stray over a boundary to be a less legitimate thing if there is any suggestion that people are being encouraged to give information that may not be entirely appropriate. What we are seeking to do, and this is where I would probably need to write to you if you wanted me to go into greater detail, is both at the initial point where an application for DLA is made and subsequently more rigorously during the time when a person is on DLA to seek to establish that they are and remain entitled to that benefit. This is a complex benefit, and I do not want to overdo on one week’s experience working on a helpline, but when I did that you did become aware that the complexity of individuals and their circumstances can be very great and it can be quite difficult to understand every complexity of somebody’s circumstances and conditions.

Q79 Angela Browning: If I may just offer you an observation, which I hope you take on board, and that is, although it is encapsulated in your literature and on the claim form that this is a benefit about identifying things that impact on people’s ability to cope with everyday living, both on the care side and on the mobility element, I do not think that is flagged up well enough. I think there are far too many people who think because they have a diagnosis or a condition that is the trigger for DLA and an awful lot of time is wasted on people applying for it, and I am quite sure quite a lot of those people get through the net and subsequently become the people you identify. Equally, I would say there are people with lifelong conditions that are not always obvious but in terms of their ability to cope with day-to-day living get discarded rather than get a successful application. I do not think the balance is right yet with DLA and I think you could do something about that if you looked at how it is initially presented to people, both professionals and claimants. I have noted quite a shift in emphasis on it. I would like to come to that same graph on page 15 which shows

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Income Support right at the top because, of course, in DLA, which is the highest in terms of estimated fraud, £40 million on the periodically reviewed benefits, where we are looking at DLA that is a non means-tested benefit. I do wonder what conclusions you make between that and the point I have just been making about the qualification being health-based as opposed to financially-based compared to Income Support right at the top of that graph, which is clearly way ahead of the others at £210 million but is a means-tested benefit, and what analysis you have made and how it might be affecting the strategy and how you go about identifying and chasing fraud as to whether you regard Income Support as one of those trigger benefits that not only is subject to fraud, as we see here, but also, because it triggers other benefits, leads to packages of benefit fraud and how strategically you might be going to tackle that, or if you are already tackling it? Have I explained that?

Sir Leigh Lewis: Yes, you have, very clearly. As you will recognise, there was a lot of complexity bound up in that question. Let me try and help as best I can. First of all, I will state the obvious: we take any kind of fraud case in any benefit seriously. There are different potential areas of fraud in those benefits. Income Support will often be about whether somebody is declaring their full circumstances, declaring any savings they may have, whether they are carrying out work when they apparently are not. Disability Living Allowance, for the reasons you say, some of those things might just be relevant although, as you say, it is not a means-tested benefit, is more about whether somebody is genuinely in the position which they have told us they are and that position is continuing. There are, I think, few but high profile cases of people who appear to be claiming those benefits because they have, for example, very severe restrictions on mobility and yet, and we are quite sophisticated in what we do, we have videos of them loading goods into the back of a transit. Our efforts are devoted to tackling two things. One is to try and make sure that people are not unwittingly misleading us and themselves because, and this is error territory, they do not understand their need to tell us of changes or we are not being sufficiently proactive in helping them to do so. The second is to actually investigate very, very robustly when we do have information which can come from the hotline, it can come from other routes, that someone claiming DLA is not entitled to it. What I would like to say, because I am certainly at the threshold of my detailed knowledge on this benefit, being straightforward with you, is if you would like us to provide you, and of course the same offer goes to any Member of the Committee, with a more detailed briefing from the Department on some of those issues then I would be happy to make that available.⁴

⁴ *Note by witness:* DWP does not target Income Support fraud specifically because it can be a gateway for other benefits, although all fraud investigations seek to establish the full extent of any offending. Rather, DWP investigates more Income Support cases simply because more of this type of fraud is reported by the public and is uncovered by data matching.

Q80 Angela Browning: I would be grateful if you would, Sir Leigh, because the point about Income Support is that so much of it is about the fact find at the beginning, which is fundamentally financial as opposed to the other subject with DLA which is fundamentally about people's state of health or mobility. They are two quite distinct things. The reason I use the word "trigger" in terms of Income Support is that Income Support triggers other benefits. When you get Income Support you are entitled to apply for other types of benefit, so people on Income Support very often find they accumulate a package of benefits and, therefore, if fraud was there the amount of money that the taxpayer is losing is more significant, not just the amount of Income Support. Because it is right at the top of your list, I wonder if strategically you have looked at Income Support and the fraud associated with Income Support being the trigger for losing a lot more by way of fraud than, say, someone who just applies for one of these other benefits in that chart.

Sir Leigh Lewis: I agree, and that is one of the reasons why we take fraud in Income Support very seriously indeed, not least because, as figure 6 suggests, the level of the estimated fraud as a percentage of total expenditure is over 2% and that is substantially higher than the level of fraud against other benefits overall. That said, let us not forget, however, that DLA is a benefit that can be in payment for a very long time indeed, so if someone is claiming it fraudulently and we do not detect and stop that then that fraud will continue for a very substantial period of time.⁵

Q81 Angela Browning: In the case of Income Support, do these figures reflect people going in and out of Income Support, therefore if there is fraud sometimes it is difficult to identify because it is sporadic?

Sir Leigh Lewis: The way the figures are calculated is by looking at a moment in time. A set of cases, a rather large sample, is assessed as to whether there is any evidence of fraud at that point in that claim. It is not necessarily charting the entire history of someone through the benefit system, it is looking at that case at that point.

Q82 Angela Browning: I do not know if Shirley Trundle would like to come in on this. What I am really looking for is to see if there are any patterns that you have identified where certain benefits, particularly those at the top which are responsible for the larger amounts of fraud, actually trigger a pattern of behaviour which is perhaps where you should strategically be focusing your resources. For example, when you identify fraud in Income Support or Jobseeker's Allowance, which is still a lot but is significantly below it, is that the way in which

⁵ *Note by witness:* In seeking to establish that someone has acted with fraudulent intent, DWP needs to establish that they knew the conditions of entitlement for receipt of the benefit, and the need to report changes and then put to them the evidence gathered during the course of an investigation.

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you can recoup more, or if you were to go just for Income Support would you be able to mop up a lot of other cases? That is really what I am asking.

Ms Trundle: We have done a great deal of work looking at what we know about the nature of fraud and the types of claims which have a higher risk of letting fraud into the system and use those risk profiles to target the sorts of interventions that we make on cases. We are learning all the time from one benefit and then translating that experience over into other benefits. Of course, because we recognise that in a lot of cases fraud in one benefit may then passport somebody to entitlement in other benefits, we have got all the data matching that we do between different benefits to identify any discrepancies in information and if, for example, we find fraud in one benefit we will then make sure all the benefits that person is receiving are looked at together.

Angela Browning: Thank you. My time is up but I would just focus on the initial fact find when people apply for Income Support. Thank you.

Q83 Phil Wilson: This figure of 0.6% of the total budget that is lost through fraud, how much lower do you think you can get that? Eventually it becomes the law of diminishing returns because this anti-fraud strategy has cost an estimated £154 million. If you got that figure down to 0.3% you would save £400 million but you would have to spend over £600 million to recoup that. Obviously we have got to keep on top of this, no-one is saying because of that we should stop chasing these people who are defrauding the system, but how much lower do you think you can get that figure?

Sir Leigh Lewis: Just to start with the actual Report itself, on page five in the preface the Report says: "Having reduced estimated levels of fraud to 0.6% of benefit expenditure, it is likely that the Department will find it increasingly difficult to secure significant further year-on-year reductions". I do not ever want to sit here before this Committee, because it could so easily be misinterpreted, and say, "I do not believe it is realistically possible to drive that number down any further". As the Chairman very rightly said at the beginning, £800 million, it may be 0.6% but it is a very serious amount of money being lost to the public purse. Nevertheless, there has to be a reality which is that no benefit system anywhere in the world will ever be immune from a group of people who will seek to defraud it, and at a certain point you have to ask yourself how much more effort and resource is it cost-effective to put in to seek to take that 0.6% down to 0.58%, 0.57%, 0.56%. I think we have to go on doing everything we can to run an effective counter-fraud and anti-fraud strategy in the Department but also, because it has been a theme of this hearing, we have to look at error because the amounts being lost to error, both customer error and official error, are significantly larger and I think it may be the case that we have greater gains to make for the public purse. Now, having said that, there is a different reason, is there not, why we should continue to be incredibly vigorous in relation to fraud, and that is because people who commit fraud

are, in effect, defrauding society and the taxpayer and, as I said in answer to other colleagues, I think the public want to believe that everything possible is being done to prevent that fraud.

Q84 Phil Wilson: Looking at the preface again, talking about the customer compliance system, it says it has improved in the recent past but they still think there are further improvements that can be made. It says one of the problem is they do not think there is any kind of communication between districts, that the communication between districts has dissipated and there is little general sense of a counter-fraud community, that people are working together to get on top of this. Do you agree with that premise? If you do, what are you doing to change it?

Sir Leigh Lewis: I certainly do not dispute any of the statements in the Report because I have agreed the Report as the Accounting Officer. First of all, I would say that in any complex organisation, and DWP is undoubtedly a complex organisation, there will always be room and scope for improving communication within the organisation and establishing a greater sense of community. Having said that, I was really encouraged by my discussion, and again I do not want to over-generalise from it, with a dozen very experienced fraud investigators in West London last week, where I said, "Tell me what's not good. Tell me where it's not working. What are your relationships like with the prosecution division in the Department?" and they said, "There will always be cases where we think, as the investigator, that somebody should be prosecuted and the prosecutor thinks there is not enough evidence to bring that prosecution. Overall, relationships are good and improving. We talk to each other, we have a grown-up relationship". On customer compliance, I think it is worth saying, and this is not to take issue with the report in any shape or form, this is quite new. This was only introduced in April 2006, so the period that the Report was looking at was its first year of operation. All the evidence we have got is that year two is seriously improving in every respect on year one. This was a very major shift. You do not get it absolutely right on day one, these things take time to bed down.

Q85 Chairman: You have got to try and keep your answers a little bit shorter. You have been going for an hour and 35 minutes and you are doing extremely well.

Sir Leigh Lewis: I will stop there, Chairman.

Q86 Phil Wilson: The other thing is on the Housing Benefit and Income Support, Incapacity Benefit, *et cetera*, which one do you think produces the most organised crime, the most organised amount of defrauding the system?

Sir Leigh Lewis: I am not sure I have got an answer to that that I would feel confident of giving to you actually. Organised fraud can take many, many forms, as we have seen. It can take the form of identity fraud, making multiple claims. It can take the form, as Neil Couling has said, of Giro cheque fraud, serially altering Giro cheques, *et cetera*. It

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tends to be less benefit specific in the sense that serious fraudsters will go for any point of what they perceive to be weakness in the system as a whole and ruthlessly seek to exploit it.

Q87 Phil Wilson: What about Housing Benefit? What kind of organised crime do we have on Housing Benefit?

Sir Leigh Lewis: I am not sure I do have a good answer to that.

Ms Trundle: Again, it would be difficult to give an answer quite in the terms you are seeking, but we certainly know that some of the big organised frauds that have already been mentioned, for example the one where there were people with multiple identities, they were claiming Housing Benefit as well as other benefits, once you have got that kind of organised fraud people will seek to exploit a range of benefits and often make multiple claims.

Sir Leigh Lewis: My understanding, and I hope you will find it helpful, is in a very welcome change from April of this current year Housing Benefit fraud investigators will be able to prosecute certain frauds against some departmental benefits, so where there is a case where somebody is defrauding the local authority in relation to their Housing Benefit but also defrauding us in relation to JSA or Income Support, for example, we are going to be joined-up in a way that we have not been previously.

Q88 Phil Wilson: One last question. The Report also points to the report that the NAO did in 2006 about how well you compared with the international scene and recommended that you went abroad and spread the good news basically. What have you been doing in that regard?

Sir Leigh Lewis: We have been doing a fair bit actually. I cannot say that I have said to my Department I think it is an absolute priority for everyone in my Department to get on aeroplanes and fly around the world to talk to other countries, because we have enough challenges of our own, but we are very welcoming to visitors. We have had quite a number of visitors, interestingly. The Netherlands have been very interested in what we are doing and believe that they have some lessons to learn from us. We have spoken at various international fora and conferences. Again, I do not want to overdo this but it was a very encouraging Report and I just pick up the quote from the Report that: "The UK has levels of social security fraud and error which are similar to those in comparable countries, but, . . . the Department has a better understanding than other nations of the problems and . . . is doing more to tackle them". I do think this is an area where we do not need to be bashful about our performance in any respect compared with other major industrialised countries.

Q89 Mr Davidson: Can I start off by asking about the cut in instruments of payment fraud that you mentioned in relation to direct payments in bank accounts. How much has that saved?

Sir Leigh Lewis: I am not sure I can give you a figure as to how much it has saved in fraud, but the number of referrals has gone down from a high point of around 150,000 a year to around 6,000.

Q90 Mr Davidson: That is very helpful. Presumably the same figure, or something similar, would apply to fraud relating to Pensions and Pension Credit as well, or was that included?

Sir Leigh Lewis: I think that includes all payment instrument fraud. Of course, this has been a hugely beneficial change in other respects. Leaving fraud aside just for one moment, it has saved the taxpayer masses amount of money.

Q91 Mr Davidson: I am aware of all that. I think it would be helpful if you give us a note on that, also indicating how much in total you think the taxpayer has been saved. Where has that money gone?

Sir Leigh Lewis: It has effectively gone into meeting the efficiency challenge faced by our Department, which is very substantial.⁶

Q92 Mr Davidson: So the Treasury got it? There was no recycling?

Sir Leigh Lewis: I think the Government has got it.

Q93 Mr Davidson: Ah, yes.

Sir Leigh Lewis: I am part of one indivisible Government.

Q94 Mr Davidson: An interesting theory. Can I just ask about your data matching which you mentioned. What is wrong with your data matching system when you still have, I think it is, £3 million of fraud from people in prison?

Sir Leigh Lewis: We have actually improved the data matching service that we have when people enter prison. I am speaking from memory and if I get this wrong I will write to the Committee afterwards. We now run a weekly scan in relation to people who are entering prison to make sure that we know when somebody—

Q95 Mr Davidson: So that should go down to nothing. A weekly scan for a weekly scam presumably. A figure of nothing there is reasonable.

Sir Leigh Lewis: I think it is very, very hard ever—

Q96 Mr Davidson: Nothing-ish.

Sir Leigh Lewis: I would be happy with nothing-ish rather than nothing.

Q97 Mr Davidson: Okay. In terms of the data checking, you mentioned, and I think I have seen it in the Report, you have difficulty getting money off people who were paying back benefit overpayments but who have then gone into work. Surely if you have a data matching system you would be able to find them.

⁶ *Note by witness:* The move from order books to Direct Payment will have saved the taxpayer around £1 billion between 2005 and 2010 because of the much lower payment costs of Direct Payment compared with the alternatives of DWP cheques or, previously, order books.

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Sir Leigh Lewis: Yes. We can in certain circumstances use attachment of earnings orders, and we do use those. We do routinely match data on DWP with—

Q98 Mr Davidson: I am sorry, time is short. If I remember correctly, either in the Report or you said, something like 90% of those who owed and moved into work you had difficulty in collecting the money. That does seem a trifle high, does it not?

Sir Leigh Lewis: Yes, and I think we could do better at collecting money from people who move into work. We are getting seriously more effective at doing so but there is a long way further to go.

Q99 Mr Davidson: Abroad fraud, which is mentioned on page 13, you mentioned there were two categories there, one was death and the other was people travelling abroad continuing to claim. When you have got on page 15 an estimate of State Pension fraud as being nil, how do those two tie together? If there is no State Pension fraud how can they still be claiming, as it were?

Sir Leigh Lewis: It may well be in another category or it may be a group of frauds that we need to understand. There inevitably is some fraud in relation to people continuing to receive benefit. Remember, we are talking—

Q100 Mr Davidson: Let me just deal with the death fraud, as it were, first of all. If they are dead and they are claiming their State Pensions as part of the abroad fraud, how can it be that you have State Pension fraud down as nil on Figure 6?

Sir Leigh Lewis: I think what we are talking about is you have to look at it in the context of the total expenditure on State Pension which is over £50 billion, if you see what I mean. In the most recent sample of cases that was extensively checked for fraud, and it was a fairly recent sample, no frauds appeared.

Q101 Mr Davidson: So the £74 million which is collected by customers living abroad, apart from the fact that some of them will not be living abroad but dying abroad, as it were, the rest of it then is those who are claiming in this country and travelling abroad. I am aware of substantial numbers of people in my constituency and nearby who travel regularly to the Indian subcontinent and come back again and I have no doubt that a number of those are on benefits and continue to claim. What steps are taken to do risk assessments of which sections of the community are most prevalent in this sort of fraud? How do you avoid the accusations of racism and so on when you do profiling?

Sir Leigh Lewis: We avoid accusations of racism because we are not interested in someone's race or ethnic background, we are only interested in whether they are claiming the benefit they are receiving accurately. If you will indulge me for just half a minute, I might just tell you one or two of the things that we are doing to tackle abroad fraud. We are tackling it through increased data matching with other countries, for example the US and New

Zealand, where we have access to their death records, so if someone dies and it is recorded on one of their systems—

Q102 Mr Davidson: I am not dealing with deaths now, I am dealing with the question of people who go abroad for family holidays, working abroad, who have a business here, a business there, I want to deal with that section.

Sir Leigh Lewis: Sorry, I am probably trying your patience.

Q103 Mr Davidson: I am not dealing with Australia or New Zealand either, I am dealing with people who go to the Indian subcontinent.

Sir Leigh Lewis: Specifically, things that we are doing that should help are we have recruited locally engaged staff in a number of key countries, including India and Pakistan, and we work with the Royal Mail to identify possible cases where customers appear from Royal Mail records no longer to be in the UK.

Q104 Mr Davidson: Some of that does not work if it is a member of a family, the family remains and they keep their mail. You responded to the bit about race by saying you do not distinguish on the basis of race, but if you are doing a genuine risk assessment and genuine profiling of risk then surely race or ethnic origin is something entirely legitimate to be taken into account.

Sir Leigh Lewis: As my colleagues here will know, because both were present, I have instituted a review of my own within the Department into abroad fraud because I am not yet fully satisfied that we are responding rigorously to every category of abroad fraud as we should, both of the categories we have discussed. For example, we are looking at stronger proof of residence tests for those people who apparently are still in the UK and we are looking at proof of life checks from those apparently still alive and claiming from abroad. I do think that we need to look at this more thoroughly yet than we are already, it is a serious issue.

Q105 Mr Davidson: Passport data transfer, passports going in and out of the country, do you have access to that information?

Sir Leigh Lewis: I am afraid I just do not know offhand, so I will have to write to you.⁷

Q106 Mr Davidson: Maybe you could pursue that for us. Clearly if somebody's passport is indicating they have left the country then that might be an indication they are not entitled to claim. Can I ask about the overlap between organised crime and organised fraud and the extent to which you co-operate with the police? This is one of the areas

⁷ *Note by witness:* When DWP has suspicion of fraud in individual cases—and in joint investigations, involving Borders and Immigration, the Passport Service, Special Branch etc—DWP has access to this information. The Home Office “e-Borders” project will start to collect passenger entry and exit data this year. As no legal gateway yet exists DWP would have to obtain a legal gateway that would enable DWP to obtain “e-Borders” data in the future.

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which undermines public confidence when known criminals and fraudsters are known to be claiming benefits and yet nothing seems to be done.

Sir Leigh Lewis: I will ask Neil Couling to give you the detail, but the very top headline is we co-operate increasingly closely not just with the police but also with SOCA, the Serious Organised Crime Agency.

Mr Couling: That is the headline and I went out on a combined operation with the Metropolitan Police last January. They are very impressed with the quality of—

Q107 Mr Davidson: Time is limited. Okay, some work is being done. I think it would be helpful to give us a note on that particularly dealing with gangs operating multiple identity frauds. Again, to what extent is their profiling and risk assessment made on this?

Sir Leigh Lewis: Within our Fraud Investigation Service we have specialised organised crime units, and they are very specialised indeed, they are intelligence led, as is all policing, and they will use those kinds of techniques and will work in very close co-operation with the police and with SOCA, and I know from my time in the Home Office that that can be very effective.⁸

Q108 Mr Davidson: You mentioned asset recovery and at one point you seized £6 million. Where does that go?

Sir Leigh Lewis: There is a complex formula and—

Q109 Mr Davidson: Life is short. Do you get it or does the Government take it?

Sir Leigh Lewis: Headline, we get a third of it.

Q110 Mr Davidson: You get a third of it. That is helpful. Housing Benefit: I saw there was a growth in error. To some extent this brings me back to the question of your desire to change the targets because you are not matching them, which I would tend to resist. To what extent are Housing Benefit and some of the other benefits an area where the answer ought to be simplification rather than simply changing the targets?

Sir Leigh Lewis: I do need very, very slightly to respond to what you first said. My position on our overall qualification is not simply we need to change the targets because we are not meeting them—I have offered the Chairman a letter—it is a much more complex issue than that. In relation to Housing Benefit and complexity, I said in answer to colleagues, and I believe it to be the case, that there is an inevitable relationship between complexity and error. I think that comes out of every study. The NAO did a report about benefit simplification and I have appeared before this Committee.

Q111 Mr Davidson: I understand that, but if you want to achieve your targets surely the answer is not simply to change the targets but to pursue more vigorously the question of simplification.

Sir Leigh Lewis: If you want to bring error down that is the case but, as I said to a colleague, I do not actually believe that is relevant to fraud. The defined characteristic of fraud, let us remember, is someone who deliberately knows that they are defrauding the system. That means they are not confused, they are not unsure, they are deliberately committing fraud. Error is very different.

Q112 Mr Davidson: The final point I want to raise is your figures have gone down for fraud, but to what extent is that due to the Government's economic policy which has got more people into work? Certainly in my constituency unemployment has more than halved and, therefore, there have got to be more people not claiming or fewer people claiming these benefits and, therefore, automatically there are going to be fewer people likely to have an opportunity to commit fraud.

Sir Leigh Lewis: The confidence you can have that we are genuinely reducing is the figure which shows the proportion of total benefit expenditure which is happening to fraud and that too is falling, it is now at 0.6%, the lowest since we have recorded.

Q113 Mr Bacon: Sir Leigh, your last point about 0.6%, which is at the bottom right-hand corner of the chart on page 15, Figure 6, brings me neatly on to my first question. It would have been a more fulsome and even more helpful chart if it had also included official error and customer error. While I am at it, could I ask you about Box 1. You see on page 6, and you were talking about the definition of fraud just a moment ago: “The Department defines **fraud** as those cases where customers deliberately claim money . . . **Customer error** occurs when customers provide information . . .” You will see that the words “fraud” and “customer error” are both in bold type. I looked in vain for the words “official error” in bold type, and the words “official error” are there. Can you explain why the words “official error” are not in bold type? Did somebody from your Department manage to get hold of the PDF and tweak it?

Sir Leigh Lewis: Not to the best of my knowledge and belief.

Q114 Mr Bacon: So, as far as you are aware, that was an error, an official error?

Sir Leigh Lewis: I am responsible for many, many things, but I am not sure I am responsible for the words that appear in bold type or not in the NAO's Report.

Q115 Mr Bacon: Nonetheless, it was an interesting error. Could you possibly send us for publication an extended version of Figure 6, which includes, in addition to expenditure, estimated fraud as a percentage of expenditure? Add on six more columns, in other words estimate official error and the percentage, customer error and the percentage, and then the total and the percentage.

⁸ Ev 22

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Sir Leigh Lewis: Of course I can. It is worth saying that the NAO have said that they intend to review and report on error as a separate subject, but of course I can do that.⁹

Q116 Mr Bacon: I realise this is a report on fraud but you were very interesting when you said that there are more gains to the public purse through tackling error. If you add up the numbers which are there buried in different parts of the report, that line for Housing Benefit, which Geraldine Smith and Mr Davidson also referred to, shows that official error had gone up significantly and customer error had gone up significantly. I think if you add up the three, 1%, 1.4% and 2.8%, you get over 5%, 5.2% in total. What I would like to see is a chart which shows all of that because it is quite a powerful illustration of the scale of the problem you face. Of these four, which are two-thirds of all fraud—Income Support and Jobseeker's Allowance, Pension Credit and Housing Benefit—which is the most pernicious or the most difficult for you to come to terms with? I realise that the figures here might suggest Income Support with the 2.3% but there may be other reasons for that. Which is proving the most troublesome to tackle?

Sir Leigh Lewis: I honestly have not got an easy answer for you there. Much as I might be tempted to say it is this one or that one, I do not think (a) I am capable of giving you an answer and (b) I am not sure I want to in a way because actually what matters here is people who are seriously defrauding the public purse and in all four of these, with the exception of Housing Benefit, which is at 1.0, we have more than 1% of expenditure going in fraud. These are serious amounts of public money. Often, of course, fraudsters may move. Some people go on Jobseeker's Allowance and then Income Support, for example, and they can also be claiming Housing Benefit. When somebody is acting completely fraudulently their fraud can show up in at least three of these at the same time.

Q117 Mr Bacon: There is a difference between Housing Benefit and the others in that Housing Benefit is administered by local authorities.

Sir Leigh Lewis: It is.

Q118 Mr Bacon: The NAO several years ago now did a report on Housing Benefit specifically when Sir Richard Mottram was Permanent Secretary, so a while ago, and it showed that the Department was unable to say then whether Housing Benefit fraud was going up or down, which was the same answer five years prior to that, so at least you have made some progress in that area. I am wondering if there is not a systemic problem arising from the fact that you have got to deal with N number of local authorities around the country and their skills, their capacity and their success which will inevitably be variable.

Sir Leigh Lewis: It is obviously more complex when we are dealing with several hundred local authorities than when we are dealing with one Department and its own agencies, but I really would say that the co-operation that exists between the Department and local authorities, and of course the LGA represents and supports local authorities as a whole, is I think a step change better than then. I am not sure of the precise time when Sir Richard would have appeared before you but we are much clearer about measurement. We are much clearer about the way we work together. I gave an example earlier in response to a colleague where we have changed the law so that local authorities will be able to prosecute fraud against not only their benefits but also some of ours from this April. There is a much closer integration than ever there was.

Q119 Mr Bacon: Would the disadvantages of centralising the payment of Housing Benefit, perhaps the lack of local knowledge or whatever, outweigh any gains from doing that? Is it better structurally the way it is?

Sir Leigh Lewis: This issue has been debated at times over my time in government and I think this could be argued either way. What I would say is two things, if you will indulge me. One, for there to be a simple and straight switch would be a massive administrative change at a time when there is huge pressure on the system. Secondly, and perhaps for another day,—

Q120 Mr Bacon: You could say the same about local government reorganisation, could you not?

Sir Leigh Lewis: Secondly, perhaps for another day, we are working with the LGA and a series of local authorities piloting a series of pathfinders. We are now in six local authorities where we are acting much more as the front end, we in this case being Jobcentre Plus, to the Housing Benefit system as a whole. Although it is very early days and evaluation is not yet complete, it appears to be showing there can be real gains for customers, benefits more quickly, and real gains for the taxpayer in saving money.

Q121 Mr Bacon: I find this very interesting and I am glad you are doing pathfinders. I hope you are not going to use the notorious phrase in Tax Credits of “compress the test timetable”, you are going to test it thoroughly. It sounds like there could eventually, if that works well, possibly be a change.

Sir Leigh Lewis: Yes. It is early days. We are not at a point where I can say to this Committee we have found the answer but, nevertheless, we are being encouraged by the results emerging from those six pathfinder authorities.

Q122 Mr Bacon: Can I ask you about the inevitable relationship between complexity and error which is something you said, and it is true, but surely there is an inevitable relationship between complexity and having qualified accounts.

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Sir Leigh Lewis: Yes, there is.

Q123 Mr Bacon: Is that what you mean when you say it is a sterile debate?

Sir Leigh Lewis: I do not want to labour the point or weary the Committee, but what I mean is this—

Q124 Mr Bacon: I am very interested in qualified accounts, I will go on about them all night if you want but I think the Chairman may have other ideas!

Sir Leigh Lewis: Me too, because I came in and nailed my colours to the mast in the Department in relation to seeking to remove the qualification of the accounts. I just think for a Department to have had its accounts qualified for 18 successive years is doing no favours to anybody. It is doing no favours to the Department, it is doing no favours to Parliament and it is doing no favours to the taxpayer. At this moment my professional judgment is that if we continue the system as we are now, even if we devoted every conceivable resource to trying to reduce fraud and error, we would not be able to get to a point where under the current rules that qualification would be removed. I think that is a thoroughly bad state of affairs.

Q125 Mr Bacon: When you say “under the current rules”, you mean with current policies of successive governments. Is that what you mean by “under current rules”?

Sir Leigh Lewis: No. I mean two things there. I mean under current policies, but also at the moment where there is a materiality threshold of 1% of expenditure there is no evidence from this country or abroad that this Department could ever get to a point where fraudulent and error expenditure would drop below that point. That gives no motivation to my staff to strive to reach unqualified accounts.

Q126 Mr Bacon: So you are saying you would like to move the goalposts?

Sir Leigh Lewis: No, I am not, because that is just simple, I could come and say, “Set it, please, at 2%”. The discussions we—

Q127 Mr Bacon: What are you saying then?

Sir Leigh Lewis: What I am saying is we need to find a different approach and with the National Audit Office we have been discussing, for example, whether you could look differently at different kinds of benefits, some of which are inherently more difficult and more complex to deliver, some of which are less complex to deliver. What I would say is, and I do not think this is me in the dock, unless together we can find a way of arriving at a point where this Department has a realistic prospect of securing unqualified accounts we will go round this forever and once a year we will arrive at a point where our accounts are qualified, where the media says, “This is a dreadful state of affairs”, we say, “You have to see it in context” and it just goes on year after year.

Q128 Mr Bacon: Do you think the media even take any notice of it now? I was not aware that the media took the slightest bit of interest. If you tell me the

journalists I will be straight on to them. Can I just ask one question of the NAO? Are you aware of any social security administration in a major developed country that has non-qualified, as it were, clean accounts for its major benefits?

Mr Lonsdale: Going back to the reference to the 2006 Benchmarking Report which we published, which is very briefly summarised in here, my recollection is because the accounting systems are very different there is not necessarily such a thing as a qualification. What we did identify in the Benchmarking Report, and I think we reflect that in here, is the level of fraud and error in the system here is not inconsistent and broadly similar with other countries.

Q129 Mr Bacon: You are saying there are countries that have non-qualified accounts but it is because they have goalposts in different places.

Mr Lonsdale: They just do not have the system of qualification, but also they do not measure the amount of fraud and error in either the same way or as accurately as DWP.

Q130 Mr Bacon: Even in similar systems like Canada, New Zealand and Australia?

Mr Lonsdale: As I say, broadly they were in the same sort of area. DWP was not that much higher, indeed they came out of the Report very positively.

Chairman: There are a couple of supplementaries from Mr Touhig and Mr Davidson before we end. I am sorry, Sir Leigh, you are almost there now.

Q131 Mr Touhig: I will be brief because we have had a long session both for Members and witnesses. So I can be clear about the overpayment, Sir Leigh, in 2001 it was estimated that there was a £2 billion overpayment as a result of fraud, *et cetera*. We are now told that there is an overpayment of about £800 million. That is a reduction of £1.2 billion.

Sir Leigh Lewis: Yes.

Q132 Mr Touhig: But in that reduction is £700 million which is neither classified as fraud nor error because you have now got these definitional changes and that is still being overpaid. Is the true level of overpayment £1.5 billion?

Sir Leigh Lewis: No.

Q133 Mr Touhig: It is not?

Sir Leigh Lewis: In that figure, just to be clear, there is £550 million of definitional change. There was £700 million of expenditure on DLA previously classified as fraud which, by agreement with the NAO, we both concluded should be classified neither as fraud nor error. We believe that £550 million of that had previously been classified as fraud and £150 million of that as error. That is the degree of definitional change.

Q134 Mr Touhig: The point I am making is the overpayment is now £1.5 billion and not £800 million because you are still paying the £700 million according to the report.

 Department for Work and Pensions & Jobcentre Plus

Sir Leigh Lewis: We have concluded that we are not paying improperly.

Q135 Mr Touhig: No, but you are still overpaying. It says in the Report: "The Department conclude that these overpayments of £700 million", so it is an overpayment, and the overpayment is in fact £1.5 billion, not £800 million, is that right?

Sir Leigh Lewis: No, because the £800 million is a fraud figure. We could probably go on debating this. Even if you wanted to apply your methodology—

Q136 Mr Touhig: Is it an overpayment, Sir Leigh? The Report says it is an overpayment and you have agreed the Report. What does the NAO say? It says here that the Department concluded overpayments were £700 million.

Sir Leigh Lewis: They were regarded as overpayments at the time.

Q137 Mr Touhig: And there is £800 million of fraud so, in fact, the overpayment is £1.5 billion at the present time. Is that correct or not?

Mr Burr: It is in excess of the underlying items, as it were, but it is not fraudulent.

Q138 Mr Touhig: No, but is it an overpayment? For whatever reason it is an overpayment.

Mr Burr: As I understand it, if the benefits were to be reassessed that payment would be found not to any longer—

Q139 Mr Touhig: Is it accurate that, in fact, overpayments are now running at £1.5 billion?

Mr Burr: The figures here are talking about fraud.

Q140 Mr Touhig: Yes, but is it an overpayment of 1.5 billion?

Mr Burr: In the sense that that payment exceeds the entitlement if those people were reassessed, yes.

Mr Touhig: I feel like a dentist drawing teeth! Thank you very much.

Q141 Mr Davidson: Can I just turn to the hotline because I think earlier on you mentioned you had a target which was that 70% of hotline calls were to be investigated. Does that mean that your target allows 30% of hotline calls not to be investigated?

Sir Leigh Lewis: It does not. It means that the target is for 70% of calls to result in a referral to one of our customer compliance teams or to our Fraud Investigation Service. When the hotline receives a call they go through a series of basic questions to identify whether there is substance behind the call. It is inevitably the case that there are occasions when it rapidly becomes clear that there is no substance behind the call.

Q142 Mr Davidson: I have got a fair number of malicious gossips in my constituency who would quite clearly shop their neighbours out of badness. In that case, how can you have a target for that? If you are saying that 100% of calls come in, they are filtered, a number of them are rejected as being

erroneous or malicious, how do you have a target for the number of those that are left to be pursued because presumably you pursue them all?

Sir Leigh Lewis: This target has stayed the same over a number of years. We believe that is what experience shows us to be the number of calls received on the hotline which are worthy of genuine and serious follow-up either by one of our customer compliance teams or our Fraud Investigation Service.

Q143 Mr Davidson: Why is it a target in that case because it is something over which you have no control?

Mr Couling: It is a quality measure. There is a discussion—

Q144 Mr Davidson: Fine. If you are saying it is a quality measure as distinct from a target I accept that.

Mr Couling: It is a target because it incentivises our operators to ask further questions to try and get the information from the person giving us the tip-off that will allow us to investigate. It is a quality measure in that sense but it is a target because we want to have a discussion about referral because the person making the referral to us will not know the evidence we need to pursue the fraud.

Q145 Mr Davidson: That is fair. Do the people who call in, recognising they will wish to stay anonymous, have any possibility of obtaining feedback in any way? Is it possible to give them a number which they could ring? One of the complaints that constituents make to me about raising things with the police and other agencies is that they will raise things, they will not necessarily want to give their names, but they have no way at all of finding out whether or not anything is happening as a result of that. Have you got some sort of mechanism that people can access?

Sir Leigh Lewis: Not as far as I know, no, so let me take that away and think about it. It is difficult because we are not generally in the business of divulging what can be very confidential investigations to other people and who may have any number of motives, both entirely right and sometimes entirely wrong, for making allegations.

Q146 Mr Bacon: The Chairman is only indulging me to the extent of my asking for a note. I read in the newspapers, so it must be true, that apparently the Department is now recognising polygamy and is paying benefits to polygamous families. I do not know if this is correct or not, but do you have a brief on that?

Sir Leigh Lewis: Since you have raised it, because I just had a suspicion this might arise but it has only arisen right at the very end, the press articles which you quote are wrong, we are not making any changes to the current arrangements.

Chairman: Well, thank God for that. I am not going to ask any other questions but I will just one make point, which is quite an important point. When the Permanent Secretary of the Ministry of Justice was

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here he said he was appointing a specific official to oversee the recommendations that are made by the PAC and whether they have been implemented by the Department. Given the importance of your Department, I hope you will be doing the same thing. We have had a very interesting discussion which we will continue with the NAO on your

accounts being qualified. The only point I would make is if you have different thresholds for different benefits that might remove the incentive for dealing with the complexity of those particular benefits. I just make that point. Sir Leigh, you have been very generous with your time and we are very grateful. Thank you very much.

 Supplementary memorandum submitted by the Department for Work and Pensions

Question 37 (Dr John Pugh): *Resources for prosecutions—split into costs for trial and for investigations*

COST TO THE FRAUD INVESTIGATION SERVICE

All Fraud Investigation Service (FIS) investigations are undertaken with a view to delivering a criminal sanction which will be of prosecutable standard. It is not therefore possible to separate out FIS costs for those cases that, following investigation and consideration of the options, proceed to prosecution.

However, once a decision is taken to submit for proceedings further costs will be incurred in preparing the investigation file for submission to the Departmental solicitors. FIS has a network of centralised teams whose role is to prepare files for submission to the DWP Prosecution Division. The numbers, by grade, dedicated to Prosecution file preparation are as follows:

	<i>Full-time equivalents</i>
Team Fraud Investigator (HEO)	4.76
Fraud Investigator (EO)	27.63
Fraud Investigation Support Officer (AO)	47.74
Fraud Investigation Support Officer (AA)	2.10
Total	82.23

This represents some 3% of total FIS resource, which represents a cost of £3.2 million (2006–07).

COST TO THE DWP PROSECUTION DIVISION

Overall, Prosecution Division estimate an average cost per case of £1,200.

In straightforward cases in the Magistrates' Courts, to which the defendant pleads guilty, the average cost may be as low as £400. In contested cases, in the Crown Court, the average cost of a two to three day trial is in the region of £7,000. These figures include all of Prosecution Division's processing costs and agent/counsel fees.

Question 54 (Mr Keith Hill): *How many people, what sort and how much money is involved in large scale organised fraud cases*

In 2006–07, the Department's Organised Fraud Unit instigated some 900 prosecutions for serious offences against the benefits system and a similar number is anticipated for the current year. In 2006–07, around 70% of those prosecuted received an actual or suspended custodial sentence with the longest sentence being 7.5 years. The year-to-date figure for 2007–08 is around 80%. The offences are generally related to either using false identities to claim benefit or the large-scale theft and manipulation of DWP cheques.

Not all organised fraud necessarily results in financial losses to the DWP. Identities that have been falsely created or hi-jacked from our systems are often used against other organisations, both public and private. The Department's Organised Fraud Unit therefore works closely with the police across Great Britain and with other government departments to conduct cross-agency investigations.

Close co-operation between the Unit, the police and local authorities led, for example, to the conviction in January 2008 of two persons who admitted to the theft of £1.85 million in state benefits. They received sentences of 5 and 4 years. In the same month, similar close co-operation with the police and authorities in the Irish Republic secured the extradition of five people who had fled England following arrest in 2005. They were sentenced to a total of 12.5 years for offences amounting to £240,000.

The Unit also investigates applications for National Insurance Numbers using false documents and the hi-jacking of the identities of genuine DWP customers. Such identities can then be used by organised criminals to target a range of benefits, including the Tax Credit system, as well as other financial

organisations, such as banks and building societies. Last year the Unit successfully investigated and eliminated nearly 5,000 such identities, preventing substantial potential losses to both the public and private sector.

Question 107 (Mr Ian Davidson): *How is DWP working with the police on multiple identity cases, to what extent is risk profiling and risk assessment made on this*

DWP through its Fraud Investigation Service works closely with the Serious Organised Crime Agency (SOCA) and other arms of law enforcement to fully understand and identify threats to the Department through the criminal use of multiple false and stolen identities. DWP also has a National Identity Fraud Intelligence Desk, as part of the Fraud Investigation Service, which is a single point of contact on identity fraud Intelligence issues with SOCA, the police and other Government departments affected by identity crime.

In addition the Department's Organised Fraud Unit maintains strong links with SOCA, the police and other government departments to seek to ensure that any criminal investigations undertaken by them identify and prosecute offences by organised criminals against DWP. A key resource, located within the Unit, is the Financial Investigation Unit. Under the Proceeds of Crime Act 2002, this unit receives, reviews and acts on Suspicious Activity Reports made to SOCA where there are implications for DWP, often revealing evidence of false and stolen identities. These investigations frequently require joint investigation with SOCA and policing services.

Question 115 (Mr Richard Bacon): *Extra columns to Figure 6 of the report to include official error; customer error and totals*

ESTIMATED OVERPAYMENTS DURING 2006–07

<i>Estimated overpayments 2006–07</i>	<i>Expenditure</i>		<i>Total Fraud & Error</i>		<i>Fraud</i>		<i>Customer Error</i>		<i>Official Error</i>	<i>Last measured</i>
Continuously reviewed										
Income Support	£9.1bn	5.5%	£500m	2.3%	£210m	1.8%	£160m	1.4%	£130m	Oct 05–Sep 06
Jobseeker's Allowance	£2.5bn	4.8%	£120m	2.3%	£60m	0.4%	£10m	2.1%	£50m	Oct 05–Sep 06
Pension Credit	£6.9bn	5.2%	£360m	1.6%	£110m	1.3%	£90m	2.3%	£160m	Oct 05–Sep 06
Housing Benefit	£14.9bn	5.3%	£780m	1.0%	£150m	2.8%	£420m	1.4%	£210m	Oct 05–Sep 06
Instrument of Payment			£10m		£10m					Apr 06–Mar 07
Periodically reviewed										
Disability Living Allowance	£9.2bn	1.9%	£170m	0.5%	£40m	0.6%	£60m	0.8%	£70m	Apr 04–Mar 05
State Pension	£53.7bn	0.2%	£110m	0.0%	£0m	0.1%	£40m	0.1%	£60m	Apr 05–Mar 06
Carer's Allowance	£1.2bn	5.5%	£70m	3.9%	£50m	1.0%	£10m	0.6%	£10m	Apr 96–Mar 97
Incapacity Benefit	£6.6bn	1.7%	£110m	0.1%	£10m	0.2%	£20m	1.3%	£90m	Apr 00–Mar 01
Interdependencies*			£30m		£10m		£10m		£10m	Apr 05–Mar 06
Unreviewed (Statistically assessed)										
Unreviewed (ex CTB)	£11.8bn	1.8%	£210m	0.6%	£70m	0.5%	£60m	0.7%	£80m	
Council Tax Benefit	£3.9bn	4.6%	£180m	0.9%	£30m	2.5%	£100m	1.3%	£50m	
Total	£119.8bn	2.2%	£2.7bn	0.6%	£0.8bn	0.8%	£1.0bn	0.8%	£0.9bn	
Range		(1.9–2.6)	(2.3–3.1)	(0.4–0.9)	(0.5–1.1)	(0.7–1.0)	(0.8–1.2)	(0.6–1.0)	(0.7–1.2)	

Source: DWP, *Fraud and Error in the benefit system October 2005 to September 2006* published December 2007.

Notes: These estimates for 2006–07 will be updated in May 2008 when estimates for the continuously reviewed benefits based on sample cases across the full financial year 2006–07 will be available.

Figures expressed as percentages (%) give the overpayments as a percentage of the benefit paid out in the year.

* some overpayments of DLA have a knock on effect on entitlement to disability/carers premiums in income-based benefits.

Letter from Permanent Secretary, Department for Work and Pensions to Committee Chairman

1. I was pleased to have the opportunity to share my thoughts about the way Fraud and Error is reported in our Departmental Accounts when I appeared before the Committee on 4 February; and I was particularly grateful for your invitation to follow that up with a letter setting out my views in more detail (Question 30).
2. I think it may help the Committee if I separate the issue into three parts:
 - How well or badly is the Department doing in reducing the actual level of fraud and error?
 - In what circumstances should the Department's Accounts be qualified?
 - The evidence that a 1% threshold for qualification is unattainable.

LEVELS OF FRAUD AND ERROR

3. Since taking up my appointment, approaching two and a half years ago, I have, as I think the Committee knows, made bearing down on fraud and error one of my top priorities one which Ministers in the Department fully share.

4. As evidenced in the NAC Report, the Department has a well defined and successful strategy for tackling benefit fraud—based on prevention, detection and deterrence. At 0.6% of benefit expenditure, fraud is at its lowest ever level, down from 2% in 2000–01. We intend, nevertheless, to maintain our focus and to seek to bring about further improvements as I set out at the Committee.

5. With error at 1.6% in total, I accept without question that we need to do more to reduce it. The 1.6% is split equally between official error and customer error. Our response to this has been to establish an Official Error Task Force in January 2006 followed by the publication in January 2007 of our comprehensive error reduction strategy to tackle both customer and official error. By September 2007, the Task Force had been successful in identifying and correcting over £2 million in weekly errors which would have continued had the Task Force not intervened. Over the last year we have been implementing our strategy to reduce error in all benefits, including Housing Benefit, with a number of key initiatives already in place. These include further error cleansing, enhanced checking procedures and IT enhancements to stop error from occurring. The strategy aims to produce savings of £1 billion over a five year period to 2012 by reducing losses from both customer and official error.

6. The Department is also addressing problems associated with complexity through its benefit simplification agenda and the creation of a dedicated Simplification Unit. In parallel we are engaged in a major customer focused Change Programme which aims to provide our customers with a single point of access to all our services thus easing their access to benefits and services and helping to improve our administrative efficiency. In addition, as I set out in my recent letter to you of 24 January,¹ we have, in response to the Committee's own recommendations, thoroughly reviewed and reduced the number of our leaflets on benefits to make them more readily understandable to the public with the aim of contributing to a reduction in customer error.

ACCOUNTS QUALIFICATION

7. The purpose and value of an audit opinion is to inform the users of the accounts of the body concerned of matters which are material in the context of the business in question. Under Government accounting rules, our auditors are asked to provide an opinion on the accounts from both a "true and fair" and a "regularity" perspective the first of these tests being one which applies equally to private sector accounts but the second of which does not. In the discussions which the Department has been having with the NAO there is common ground that the basis of an opinion in respect of both "true and fair" and "regularity" should reflect the context of the Department's business and the expectations of the users of the accounts in particular Parliament. This is essential if a qualification is to convey information that meets the intentions and expectations of the user.

8. For most of the last 18 years during which the Department's accounts have been qualified, the test that has been applied to qualification has been whether fraud and error combined have exceeded a materiality threshold of 1% of total payments. For example, in the then Comptroller and Auditor General's Report on the DWP Resource Accounts for 2003–04 he said: "*I have indicated to the Department that to avoid qualification it would have to reduce the level of estimated fraud and error to below one per cent of gross expenditure, equivalent to just over £1 billion in 2003–04*".

9. More recently, however, the National Audit Office have said that their assessment of what is material for the purposes of reaching an opinion on the accounts is a matter of judgement and includes both quantitative (value) and qualitative (nature) considerations. The present Comptroller and Auditor General has very helpfully set out for me the approach that he takes on these issues based on a set of criteria for reporting materiality. In that regard he has noted that the NAC might use a percentage threshold, but are not bound to do so, and in any case may need to report on errors significant by nature, regardless of size.

¹ Information provided, not printed.

10. I very much welcome this approach which, we believe, will enable us to work with the NAO to determine how reasonable are the Department's measures to pay each benefit accurately, to deter fraud in that benefit and how well we are doing in encouraging customers to make accurate claims. In considering our performance in context we believe, as an illustration of the benefit of such an approach, that it will, for example, allow us to consider further with the NAO the nature of customer error which, even if technically irregular, is we believe fundamentally different in kind from the other two components of total fraud and error; namely fraud itself and official error. In respect of customer error, our view is that if, at the point when a customer makes a claim for benefit, or gives us details of a change of circumstances, he or she gives us information which they believe to be true and which we have no reason to disbelieve then, in accordance with our legal obligations, we cannot do other than award entitlement on what we believe to be the true facts.

11. More generally, in the light of the approach which the current Comptroller and Auditor General has now set out, and which I regard as a particularly welcome development, it could be argued that it renders nugatory the question of whether there has ever been, or ever will be, a realistic prospect of the Department meeting a 1% test. Nevertheless, I believe that it is worth setting out the evidence on this issue for the Committee not least because this has been the basis on which the Department's accounts have been qualified for most of the past 18 years.

THE EVIDENCE THAT A 1% THRESHOLD IS UNATTAINABLE

12. The evidence that a 1% threshold is unattainable is based on two core arguments; first, the inherent implausibility of such a threshold and, secondly, the weight of comparator evidence from this country and abroad.

13. On the first, to come below a 1% threshold would require us to bring the total of fraud, customer error and official error, combined, below such a figure.

14. In respect of fraud the recent NAO Report noted that, "*having reduced estimated levels of fraud to 0.6% of benefit expenditure, it is likely that the Department will find it increasingly difficult to secure significant further year on year reductions*". If that is so—as I believe it is—then it follows that error, both official and customer combined, would have to fall below 0.5% compared with its present level of 1.6% for the Department to fall below a 1% threshold.

15. I am in no doubt that the figure of 1.6% can, and should, be reduced. At the same time we have, by common consent, a benefit system of huge complexity, involving the payment of over 40 different benefits at more than 300 different benefit rates to some 20 million people at any one time, and in a society in which people's backgrounds are now more varied and their lives now change in terms of their status, employment, location and incomes at a faster rate than, almost certain a any time in our history. Against that background, the suggestion that error, both customer and official combined, can be reduced to less than $\frac{1}{2}$ p in every £1, is, in my view, simply not credible.

16. That conclusion to come to the second core argument is borne out by the comparator evidence both from this country and abroad.

17. During our discussions at our recent hearing, Members were interested in the approach adopted in countries with similar systems to ours. Indeed it is interesting to note that other countries where levels of fraud and error are comparable to ours take approaches to qualification quite different from ours.

18. The most authoritative evidence of this position comes from the NAO's own Report, *International Benchmark of Fraud and Error in Social Security Systems*, (HC 1387, 2005–06, 20 July 2006). This sought to measure levels of benefit fraud and error in nine major industrialised countries: Australia, Canada, France, Ireland, the Netherlands, New Zealand, Sweden, the USA and the UK. It found that many of these countries simply do not measure fraud and error in their benefit systems. Of those that do none has overall levels of fraud and error lower than our own. The overall conclusion of the report was that the Department has levels of social security fraud and error which are similar to those in comparable countries, but has a better understanding than other nations of the problems and is doing more to tackle them.

19. We also appear to benchmark favourably against private sector comparators. According to a recent research paper by the Association of British Insurers,² the estimate of total general insurance fraud in the context of the size of the general insurance market in 2006 was 5% of net written premiums. This is a less exacting measure than the percentage of payments made, the basis that is used in determining DWP's level of fraud. While as noted in paragraph 7 above, the tests applied by their respective auditors are different, it is nevertheless noteworthy that no major insurer has had its accounts qualified as a result of experiencing this level of fraud.

20. In terms of the private sector more generally, research carried out for the Department by McKinsey in November 2005 found that the best practice financial institutions typically achieve "leakage" of 2%–3%. The research went on to say that comparison between the Department and financial institutions was valid and potentially useful as, like large scale financial institutions including banks and insurance companies, the DWP is required to manage a complex and variable web of financial payments efficiently and effectively.

² Association of British Insurers Research Paper 4—General Insurance Claims Fraud, October 2007.

21. It should also be noted, when making comparisons, that the Department is also particularly rigorous in its approach toward estimating the level of fraud and error. Estimates are prepared annually for the Resource Accounts and are conducted to Office of National Statistics standards. During 2007–08, the Department has significantly increased the timeliness of the data used to produce the estimate. Historically, the estimate has been based on previous year data. However, for the 2007–08 Resource Accounts we will incorporate six months of in-year data for the first time. We have also introduced an improved quality assurance regime and continued to refine the estimates for smaller benefit streams. For CSRO7 we plan to introduce further changes, most notably to increase the range of benefits subject to continuous measurement.

CONCLUSION

22. I was candid with the Committee in giving my view that, irrespective of our best efforts to date and our continuing commitment in the years to come, I regard it as impossible that we will ever get total fraud and error below 1%. That is why I said that, in my view, qualification had become, over nearly 20 years, an annual ritual which was not helpful to those who sought genuinely to understand the true financial position, regularity and performance of the Department. Nor has it been remotely helpful to me and my top team in terms of motivating our staff. Targets within an organisation which are seen as stretching, but ultimately achievable, are generally highly motivating. Targets which are seen as simply out of reach are, by contrast, highly-demotivating and, as a result, tend to lead to worse rather than better performance.

23. All of this said, I believe that we do now have a real opportunity to establish with the NAO a basis for supporting an opinion which fully reflects the context of the benefits we deliver and the diverse customer base that we serve. Such an approach could, I believe, provide an opinion which fully reflects the context aligned with Parliament's intentions; drive appropriate behaviours; but not in any way compromise value for money or customer service. In that context I should like to re-iterate two key points:

- first, that I and the DWP remain totally committed to tackling error and driving it down while continuing to maintain the focus on reducing fraud; and
- secondly, that we remain fully committed, equally, to continuing to provide robust estimates of overall fraud and error.

24. In terms of the way forward, I am pleased to say that we have been discussing these issues very fully with the Comptroller and Auditor General both with Sir John Bourn before his retirement and more recently with Tim Burr. A good understanding of the issues has been reached on both sides. As a result a clearer understanding of our audit approach has resulted and we now have a better-informed relationship. I also accept, without question, that it is for the Comptroller and Auditor General to take an independent view on each set of accounts on which he is required to reach an opinion. I hope, however, that in reaching that judgment he, as well as the Committee, will find the considerations which I have set out in this letter to be helpful.

25. I would, of course, be happy to discuss these issues further with the Committee. In the meantime I am copying this letter to the Chair of the Work and Pensions Select Committee; the Comptroller and Auditor General; the Permanent Secretary to the Treasury; and to my own Secretary of State.

Sir Leigh Lewis KCB

13 March 2008