



HM Government

# Tackling Fraud, Error and Debt in the benefits and tax credits system

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# Foreword - Tackling Fraud, Error and Debt in the benefits and tax credits system



Mark Harper MP

Minister of State at the Department for Work and Pensions

The last few years have seen this Government introduce the biggest reforms to the welfare system in over 70 years. This is a momentous transformation which revitalises the UK's approach to welfare - taking us to a future which incentivises work, fosters aspiration, and continues to protect the most vulnerable.

Fairness is at the heart of this. A fair welfare system is not merely a system which gives welfare recipients adequate and acceptable support. It is one which also addresses fraud, error and debt in the benefits and tax credits system.

While the overwhelming majority of people are honest and pay or claim what is due, a small minority are dishonest and try to cheat the system. Tackling levels of fraud, and progressively reducing error and debt in the system, has therefore been a Government priority.

That is why this Government established the Fraud, Error and Debt Taskforce in 2010, with the aim of coordinating cross-Government efforts to tackle these risks, harness new technology, combat fraud and reduce its impact on public finances.

This report sets out the extensive and innovative work that our respective departments have put in place to tackle fraud, error and debt in the benefits and tax credits system.



David Gauke MP

Financial Secretary to the Treasury

A handwritten signature in dark ink that reads "Mark Harper" with a horizontal line underneath.

Mark Harper  
Minister of State at the Department for Work and Pensions

A handwritten signature in dark ink that reads "David Gauke" in a cursive style.

David Gauke  
Financial Secretary to the Treasury

# Summary

The government's fundamental reform of the benefits and tax credits system is transforming people's lives. A simpler and fairer system will also drive efficiency and savings, providing a better deal for the taxpayer.

Levels of fraud, error and debt in the benefits and tax credits system are unacceptably high. Since 2010, the Fraud, Error and Debt Taskforce has supported departments as they embark on a major programme of reform, bringing clear accountability and oversight to a crucial area of government spending.

The UK has a strong track record in welfare provision but it is important that the administration of welfare payments is fair and not open to fraud or unnecessary waste. Leading from the centre of government, the Fraud, Error and Debt Taskforce brought together Ministers, senior officials and private sector experts to work across government departments to tackle these issues. Departments have made real progress - using welfare reform, digital services and data sharing - to reduce losses to the taxpayer.

This report highlights the progress being made and how the Department for Work and Pensions (DWP) and HM Revenue and Customs (HMRC) are working together to progressively reduce error, and ensure that the honest majority do not lose out at the hands of those who defraud the system.

The departments' shared approach is to:

- simplify the benefit and tax credits system - to reduce the possibility that people are paid too much through fraud and error
- improve accuracy by ensuring that we use the most up-to-date details to assess people's pension and employment income with Real Time Information (RTI) data
- make it easier for people to tell us about changes in their circumstances which might affect their right to claim, or the amount they receive
- improve the detection of fraud and error through improved sharing of data across government and other agencies
- support more coordinated action to punish fraud and create strong deterrents
- increase our ability to recover overpayments and fines
- minimise the build-up of debt as people receive only what they are entitled to.

The investment and progress in the last five years will continue because tackling fraud, error and debt in welfare remains the right priority. This report shows some of the savings the government expects to make from welfare reform and from a continuing coordinated focus in this area.

# Reforming welfare

## Giving people incentives to work

The government is delivering the most significant and radical reforms to the welfare system in generations. The greatest change is Universal Credit, which is restoring fairness to the system by making sure work always pays. Universal Credit is improving work incentives and allowing individuals to keep more of their income as they move into work.

For people of working age, six benefits are being replaced by Universal Credit - income-based Jobseeker's Allowance, income-related Employment and Support Allowance, Income Support, Working and Child Tax Credits, and Housing Benefit.

## Savings to the taxpayer

Not only is this easier for claimants to understand, but it will save money and deliver significant economic benefits.

Universal Credit gives us a clearer view of claimants' income as they move in and out of employment, replacing the more complicated system of out-of-work benefits and tax credits. It simplifies the processes for reporting self-employed earnings and the costs of childcare, which have led to errors in the past. A less complicated system also reduces the scope for staff to make mistakes when calculating entitlements.

When Universal Credit is fully rolled out, the government expects to save about £2.6 billion each year through reduced fraud, error and overpayments, and increased ability to monitor changes in income.

The government is also introducing a new foundation for saving by radically simplifying the State Pension. The full rate of the new State Pension will be set above the current basic level of means-tested support - reducing the opportunities for fraud and error.

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# Investing in technology and sharing data

HMRC's Real Time Information (RTI) system to collect income data from people on Pay As You Earn (PAYE) is a core element of the Universal Credit benefits system. This means that claimants on PAYE receive the payment they are entitled to promptly, without having to report their earnings themselves.

HMRC estimates that RTI will save £220 million in 2014-15 and a further £410 million over 2015-16 and 2016-17.

RTI improves the benefits system by enabling DWP to adjust each monthly Universal Credit payment according to people's actual earnings. The flow of accurate, up-to-date information between employers, HMRC and DWP means that RTI:

- prevents the risk of overpayment where people make errors in reporting their earnings
- minimises build-up of debt, as people receive only what they are entitled to
- reduces opportunities for the dishonest minority to commit fraud.

The investment in RTI is already paying for itself, bringing clear benefits to HMRC and DWP.

Using RTI allows HMRC and DWP to collect the most up-to-date information about individuals and families claiming traditional benefits and tax credits.

HMRC can track accurate income details each month for the 2.3 million people on PAYE who receive tax credits, so it can pay them the correct amount at the outset. This is important, because it ensures greater accuracy and lower levels of overpayments, fraud and error.

## Getting payments right using accurate data

During RTI's first year (2013-14), HMRC saw how it could use RTI for tax credits calculations - identifying £10 million in savings from fraud and error from the high-risk sample involved. These cases were examined after comparing the differences between earnings reported using RTI, and the declared amount of earnings, submitted as part of the tax credits renewals process.

Now that the figures in real time are used almost universally and feed into the automatic renewal process at the start of the year, HMRC estimates that RTI will save:

- £220 million in 2014-15 due to reduced tax credits overpayments, fraud and error
- a further £410 million over 2015-16 and 2016-17.

Monthly RTI income data now helps DWP and HMRC identify people who have not declared (or have under-declared) income from earnings or pension payments, when claiming benefits such as Jobseeker's Allowance, Income Support, Pension Credit, Employment Support Allowance, Carer's Allowance and Housing Benefit. DWP is using RTI in its data-matching project, which cross-references benefit claims with earnings data to identify people who are under-reporting their income. This type of fraud and error accounts for around £1 billion of overpayments a year. The project required development of IT and business processes to match more than eight million records and identify 350,000 cases for investigation. It is expected to deliver £114 million of savings for the taxpayer.

DWP is also examining how RTI data can ensure that earnings and pensions are taken into account when assessing new claims to these benefits.

RTI is just one example of how HMRC and DWP are sharing data to identify and eliminate fraud and error. We also cross check our own information regularly with other sources of data from third-party organisations - such as credit reference agencies - helping to identify benefits and tax credits claims that need greater scrutiny.

DWP also works closely with landlords who provide housing to people on benefits and tax credits, to verify payments of the Universal Credit housing element in order to reduce fraud, error and debt. DWP may share additional information with landlords and other relevant partners about claimants' budgeting and digital skills, where it will help to prevent them falling into debt or failing to tell us about important changes to their circumstances.

# Working together efficiently and effectively to tackle fraud and error

A new Single Fraud Investigation Service coordinates investigations that had been managed individually by DWP, HMRC and local authorities. We are pooling expertise and information to identify and address fraud more efficiently, helping investigations into tax credits and Housing Benefit.

The government has created separate schemes to encourage local authorities to tackle fraud and error in Housing Benefit. DWP is offering specialist support to identify and share best practice among local authorities. These authorities can now bid for extra government funding to introduce new initiatives, and are rewarded financially for innovation and performance.

DWP is using a new Fraud and Error Service to develop a more coordinated approach internally. It has improved processes for analysing information and risks, carrying out investigations and interviews, and enhanced its approach to tackling organised fraud.

The department has also created a new process within the Fraud and Error Service to encourage innovative ideas, test new solutions and technologies, and identify how they could be used operationally. For example, it is using a new data scan that targets fraud and error when claimants fail to tell the department that they are living with a partner. It uses a risk and evidence-based approach to developing fraud and error initiatives, which focuses effort on where it can deliver best results.

DWP has also increased its efforts to eradicate benefit fraud among claimants living outside the UK, for example British pensioners living abroad. New, stringent checks place greater responsibility on people who have moved abroad to verify their identity and prove they are eligible for their claim.



# Tougher sanctions for punishing fraudsters

DWP has strengthened the sanctions it can impose on fraudsters, including raising the levels of penalties and increasing the amount it can take from benefits to recover fraudulent payments. It has also introduced a fine for claimant error. Since 2012, DWP and local authorities have imposed nearly 70,000 penalties for fraud and more than 150,000 fines for error.

Since 2012, HMRC has significantly ramped up its penalty regime for tax credits-related offences. The department imposed 15,182 penalties in 2013-14, a five-fold increase on 2,769 in 2011-12.

Tougher action, supported by communications campaigns, sends a clear message that fraud will be detected and punished, and that overpayments will be pursued rigorously. The wider public has an important role too: calls to the Benefits Fraud Hotline reached almost 180,000 in 2013-14.

In all, DWP prosecuted around 10,000 people for benefit fraud in 2013-14.

# Better ways of recovering debt

In 2013-14, DWP recovered £363 million of fraud and error-related debt - a year-on-year improvement, and an increase of £100 million compared to 2009-10. HMRC collected £815 million in tax credit debt in 2013-14, up from £573 million collected in 2009-10.

DWP can now collect overpaid benefits directly from an individual's earnings where necessary. It has recovered £13 million from more than 80,000 debtors in this way.

Both HMRC and DWP recover outstanding debts using various methods and can agree to collect debts in instalments. For example, HMRC offers support for customers experiencing genuine financial difficulty in paying what they owe through Time To Pay arrangements. At the end of January 2015, HMRC had Time To Pay arrangements totalling £1.1 billion with tax credits customers, double the value of similar arrangements three years earlier in January 2012.

HMRC uses private sector Debt Collection Agencies (DCAs) to collect tax and tax credit debts, as part of its routine operations. Before any agency is appointed, it is tested fully to make sure it can handle data securely and accurately. If DCAs are unable to recover the money, the debt is returned to HMRC to consider further action. The department has recently expanded its use of DCAs to increase its ability to recover debt. In September 2014, HMRC contracted a private sector provider to carry out the entire first stage of tax credits debt collection activity, which covers letters and telephone calls, for the next two years.

HMRC and DWP are working with the Cabinet Office to develop a more coordinated and efficient approach to contracting and managing debt-related commercial services across government, such as outsourced debt recovery.

# Secure digital services transforming the welfare system

Digital services are transforming how the government delivers and protects the security of the welfare system.

Universal Credit's Digital Service will provide easy online access, allowing households to make claims and report changes securely. It will also use sophisticated security and counter-fraud measures, such as a new government identity assurance process and a data-driven risk assessment system.

HMRC is investing in new digital services to make it easy for people to keep in regular contact, and provide accurate, up-to-date information securely. In 2014, the tax credits renewals service helped 410,000 people renew their tax credits online. This year, HMRC will provide a new tax credits service so they can report changes of circumstance online all year round.

DWP is also developing a digital service which will allow people to repay debts quickly and easily online.

# Conclusion

Our radical and far-reaching reforms are making the welfare system simpler, fairer and more transparent. As well as encouraging work and tackling fraud, error and debt, the new welfare system will result in a better deal for taxpayers.

The reforms of the last five years, underpinned by new data technologies, improved analysis and a commitment to cross-government action, have laid the foundations for a step change in our ability to identify and prevent fraud and progressively reduce error and debt.

We know we have more work to do, but as Universal Credit continues to roll out nationally, we will see further improvements in how welfare works, with less scope for fraud and error to enter the system.

This is a sound basis for the future: one that reinforces our steadfast commitment to supporting people so they receive the correct entitlement, while we take a zero tolerance approach to fraud.

We are confident that in the next Parliament, our departments will continue to make further advances in tackling fraud, error and debt in the welfare system.

See more information on [Universal Credit](#), how to [make a claim](#) and other benefits and credits on [GOV.UK](#)

