



Annexes

# Annex A: Measuring fraud and error

The Department first started routinely measuring the level of fraud and error in the benefits system in 1997. The first exercise to measure incorrect payments showed that Income Support and Jobseeker's Allowance were most vulnerable to loss. We therefore focused our attention on these benefits.

Estimates of the amount of fraud and error in the benefits system are calculated from the results of checks carried out on a sample of benefit claims. We currently undertake continuous measurement of fraud and error in Income Support, Jobseeker's Allowance, Pension Credit and Housing Benefit, because these benefits contribute towards the highest monetary loss every year. Other benefits are measured less frequently, to obtain an estimate of the total global fraud and error in the benefits system. It is also done to keep an eye on any shifts in the level of fraud and error.

## Distribution of error

The measurement exercise, like all measurement exercises, is subject to a degree of uncertainty. But it still provides us with valuable information regarding the nature of these errors.

## Where does error enter the system?

Error enters the benefits system at three distinct points:

- the start of a claim (the gateway), when gathering information and processing the claim to benefit;
- during a claim's lifecycle, usually through a change to a customer's circumstances; and

- when the action to close a claim is carried out incorrectly.

## Measurement of fraud and error

It is essential to assess accurately the scale and nature of the problem of fraud and error in the benefits system in order to develop an effective response to it. Most major benefits were measured as separate one-off snapshot exercises in the 1990s.

In 1997 continuous rolling measurement of Income Support (including the Minimum Income Guarantee, which was replaced by Pension Credit in October 2003) and Jobseeker's Allowance was begun in recognition of their particular vulnerability to loss. Continuous measurement of Housing Benefit was added to this in 2002.

Measurement enables estimates to be made of the total number of cases that are incorrect within the benefit at any point in time; the loss in cash terms and the loss as a percentage of benefit spend. Given that benefit spend may rise or fall, the key indicator is the percentage rather than the cash loss.

## Estimating the total fraud and error loss in the benefits system

We first published an estimate of overall fraud and error loss across the benefits system in 2001: an annual figure of approximately £2 billion in fraud and £1 billion in error.<sup>15</sup> We have since developed our methodology for estimating and presenting fraud and error overpayments across the benefits system. Our best estimate, therefore, is that total annual loss from fraud in 2005/06 now stands at £0.8 billion (0.7 per cent of spend) and error at £1.9 billion (1.7 per cent of spend).

<sup>15</sup> Department for Work and Pensions, 2001, *Resource Accounts 2000/01*.

# Annex B: Estimates of overpayments due to fraud and error in 2005/06<sup>16</sup>

	Expenditure 2005/06	Fraud and error	Fraud	Customer error	Official error	Period of exercise <sup>1</sup>
<b>REGULARLY REVIEWED</b>						
Income Support	£9.1bn	£490m 5.3%	£210m 2.3%	£100m 1.1%	£170m 1.9%	Apr 04–Mar 05
Jobseeker's Allowance	£2.3bn	£140m 6.0%	£50m 2.2%	£30m 1.5%	£50m 2.3%	Apr 04–Mar 05
Pension Credit	£6.4bn	£300m 4.6%	£70m 1.0%	£90m 1.5%	£140m 2.1%	Apr 04–Mar 05
Housing Benefit	£14.0bn	£760m 5.4%	£170m 1.2%	£430m 3.1%	£160m 1.1%	Oct 04–Sep 05
<b>PERIODICALLY REVIEWED</b>						
Disability Living Allowance <sup>2</sup>	£8.6bn	£160m 1.9%	£40m 0.5%	£50m 0.6%	£60m 0.7%	Apr 04–Mar 05
State Pension <sup>3</sup>	£51.3bn	£70m 0.1%	£0m 0.0%	£40m 0.1%	£30m 0.0%	Apr 05–Mar 06
Carer's Allowance	£1.1bn	£60m 5.5%	£40m 3.9%	£10m 1.0%	£10m 0.6%	Apr 96–Mar 97
Incapacity Benefit <sup>4</sup>	£6.6bn	£120m 1.9%	£10m 0.1%	£20m 0.2%	£100m 1.5%	Apr 00–Mar 01
Instrument of Payment fraud		£20m	£20m			Apr 05–Mar 06
Interdependencies <sup>5</sup>		£30m	£10m	£10m	£10m	Apr 04–Mar 05
<b>UNREVIEWED</b>						
Unreviewed (excluding Council Tax Benefit) <sup>6</sup>	£12.4bn	£340m 2.7%	£110m 0.9%	£110m 0.9%	£110m 0.9%	Apr 05–Mar 06
Council Tax Benefit <sup>7</sup>	£3.8bn	£210m 5.4%	£50m 1.2%	£120m 3.1%	£40m 1.1%	Oct 04–Sep 05
<b>TOTAL<sup>2,8,9</sup></b>	<b>£115.8bn</b>	<b>£2.7bn 2.3%</b>	<b>£0.8bn 0.7%</b>	<b>£1.0bn 0.9%</b>	<b>£0.9bn 0.8%</b>	

## Notes

1 Individual estimates are produced from the latest available information at the time of preparation of the Accounts (covering a twelve month period in the 'period of exercise' column) updated in line with expenditure for the relevant reporting year. The monetary amounts quoted here may therefore differ from previously published values for the individual benefits.

2 The 2004–05 DLA National Benefit Review identified cases where the change in customer's needs have been so gradual that it would be unreasonable to expect them to know at which point their entitlement to DLA might have changed. These cases do not result in a recoverable overpayment as we cannot quantify or define when the customer's change occurred. Because legislation requires the Secretary of State to prove that entitlement to DLA is incorrect, rather than requiring the customer to inform us that their needs have changed, cases in this subcategory are legally correct. The difference between what claimants in these cases are receiving in DLA and related premiums in other benefits and what they would receive if their benefit was reassessed is estimated to be around £0.7 billion (+/- £0.2 billion). This figure is not included in the total above, but a similar figure was included in the global fraud and error figure of £3 billion reported in the Resource Account for 2003–04.

3 The 2005–06 SP pilot National Benefit Review identified around £30 million overpayments due to non-notification of death to the International Pension Centre. These have been included as customer error in this table – a small amount of these may be fraudulent.

4 Official error rates have been updated with estimates from the 2004–05 measurement exercise.

5 Overpayments due to knock-on effects between loss of DLA component entitlement and premiums on income-related benefits.

6 The estimated rate of fraud and error on unreviewed benefits, for which we have no reliable review information, has been set at 2.7% and divided equally among fraud, customer error and official error. This rate was set for the 2004–05 estimates on the basis of the overall level of fraud and error measured across reviewed benefits. This has not been altered to reflect subsequent reductions in the overall rate of fraud and error to avoid making the estimate too sensitive small changes in other estimates which are not statistically significant.

7 Fraud and error on CTB has not been measured before and is assumed here to be equal to fraud and error rates on HB.

8 Although quoted to the nearest £0.1 billion, there are considerable uncertainties around the total estimates (95% confidence intervals of between +/- £0.2 billion and +/- £0.3 billion).

9 Individual figures may not add across to total fraud and error figures due to rounding.

<sup>16</sup> Department for Work and Pensions, 2006, *Resource Accounts 2005/06*. Updated estimates for 2005/06 are due to be published as National Statistics on 1 February 2007, available at [www.dwp.gov.uk/asd/asd2/fraud\\_error.asp](http://www.dwp.gov.uk/asd/asd2/fraud_error.asp)

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