



## 1. Introduction

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## Background

1.1 The Department for Work and Pensions and local authorities pay over £115 billion in social security benefits to approximately 30 million customers each year.<sup>3</sup> This money includes pensions, help with housing costs, support for people with an illness, disability or care responsibilities, and help for those who are out of work. The vast majority of benefit – just under 98 per cent<sup>4</sup> – is paid correctly.

1.2 But, unfortunately, the remaining proportion of benefit expenditure – just over 2 per cent – is paid incorrectly as a result of deliberate fraud by customers and mistakes made both by customers and by staff. When we make a mistake, we call it ‘**official error**’, but if the mistake did not involve our staff and deliberate customer fraud is ruled out, we treat it as ‘**customer error**’.

1.3 Mistakes matter because they mean we pay our customers either too little or too much money. Paying customers the wrong amount of benefit falls short of our objective to provide excellent customer service. It also represents an inefficient use of resources. That is why we are committed to driving error from the benefits system.

## What causes official error?

1.4 There is no single reason for paying benefit incorrectly. It happens for a number of reasons. Our research tells us that when these factors work together, it is far more likely that a benefit payment will be paid incorrectly.

Some of the most common reasons for error include:

- the complex nature of the rules governing the benefits system;
- IT systems that are not as integrated as they could be;
- poor business process design; and
- human fallibility.

## Complexity

1.5 The Department and local authorities administer around 40 benefits, allowances and grants to a wide and diverse population. Detailed benefit rules allow us to tailor benefit payments to people’s differing needs so that changing incomes and family structure, different residential arrangements, varying working hours and fluctuating states of health can all be catered for.

1.6 Such a system promotes fairness between individuals in similar situations, and allows taxpayers’ money to be directed towards those most in need. Individually, each of the rules in this complex system makes sense, but it is clear that the cumulative effect has created a structure which is confusing both for staff and for our customers.

<sup>3</sup> Department for Work and Pensions, 2006, *Resource Accounts 2005/06*.

<sup>4</sup> Department for Work and Pensions, 2006, *Resource Accounts 2005/06*.

1.7 The National Audit Office report, *Department for Work and Pensions: Dealing with the complexity of the benefits system*,<sup>5</sup> recognised that in order 'to meet the needs of people in a wide range of circumstances ... benefit legislation and supporting regulations are inherently detailed'. For example, we know that there are over 200 potential things that can go wrong when handling a claim for Income Support or Jobseeker's Allowance. This complexity can lead to errors either by staff administering the benefit or by customers not being clear about what they need to report. It also makes the system time consuming and therefore costly to administer.

1.8 We now need to strike a better balance between these competing aims. The system needs to contain an appropriate level of complexity to allow it to meet the needs of different groups of individuals, yet be simple enough to be efficient and more easily understood by staff and customers. Simpler systems are also less prone to error.

The Employment and Support Allowance proposals directly address a key area for simplification. They rationalise the current complex structure of incapacity benefits by introducing a single point of entry and level of benefit to those with an illness or disability.

### Poor IT integration

1.9 Many of the income-based benefits are linked with other benefits, allowances and grants. For example, the award of Disability Living Allowance can alter the amount of Income Support payable to include extra premiums. Over time these 'linked' entitlements may change, which means that the Income Support award needs to be recalculated. At the moment this and other similar business processes are not as fully

automated or integrated with other computer systems as they could be. Consequently, staff are required to make some calculations offline, and this is where mistakes can creep into the benefit payment award.

1.10 Where computer systems are not integrated, staff inform other parts of the Department with an interest in the benefit claim using paper-based communications. These clerical parts of the process can go wrong. Actions are missed when papers are lost for example, allowing mistakes that affect the amount of benefit paid.

1.11 Those parts of benefit processing which are fully automated and integrated – requiring little or no routine staff intervention – operate well. Where the system requires input from our staff, the potential for error entering the system increases. This is not because our people are careless, but because any action requiring human intervention is open to mistake. More effective automation in the calculation of benefits which are interrelated would have a significant impact on keeping official error out of the system. Further modernisation of the Department's computer systems is a key element in reducing the levels of error.

### Poor compliance

1.12 Error occurs when our people, for whatever reason, fail to follow agreed business processes. Ensuring that our staff are able to understand and comply with instructions and follow business processes is essential in the fight to reduce official error across the Department and local authorities.

1.13 Staff may fail to follow a business process for a number of reasons:

- A process may be difficult to follow because it is designed to administer a complex income-related benefit, for

<sup>5</sup> Comptroller and Auditor General, National Audit Office, 2005, *Department for Work and Pensions: Dealing with the complexity of the benefits system* (HC 592), 18 November.

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example requiring the processing and inputting of a great deal of information regarding a customer's capital or income over a lengthy period of time.

- Business processes may not be fully supported by the computer system that staff use and may require clerical work to be carried out such as performing complex calculations manually, which means that mistakes can be made.
- Departmental guidance is not always as clearly written as it should be and may also not be easily accessible or up to date, leaving some people in doubt about the correct course of action to take and with a greater propensity to make errors.

1.14 All of these factors contribute to an environment where our people can make innocent mistakes. These factors must be addressed if we are to reduce official error in the benefits system.

### What causes customer error?

1.15 Many of the factors that contribute to official error also give rise to confusion and therefore lead to mistakes by our customers. This can happen either when a customer makes a claim for benefit or after a claim is in payment, when a relevant change of circumstance is not reported on time or not reported at all. This is because in all benefits, once benefit is in payment it is a customer's responsibility as a condition of entitlement to keep the Department informed of any changes which may affect the amount they are paid.

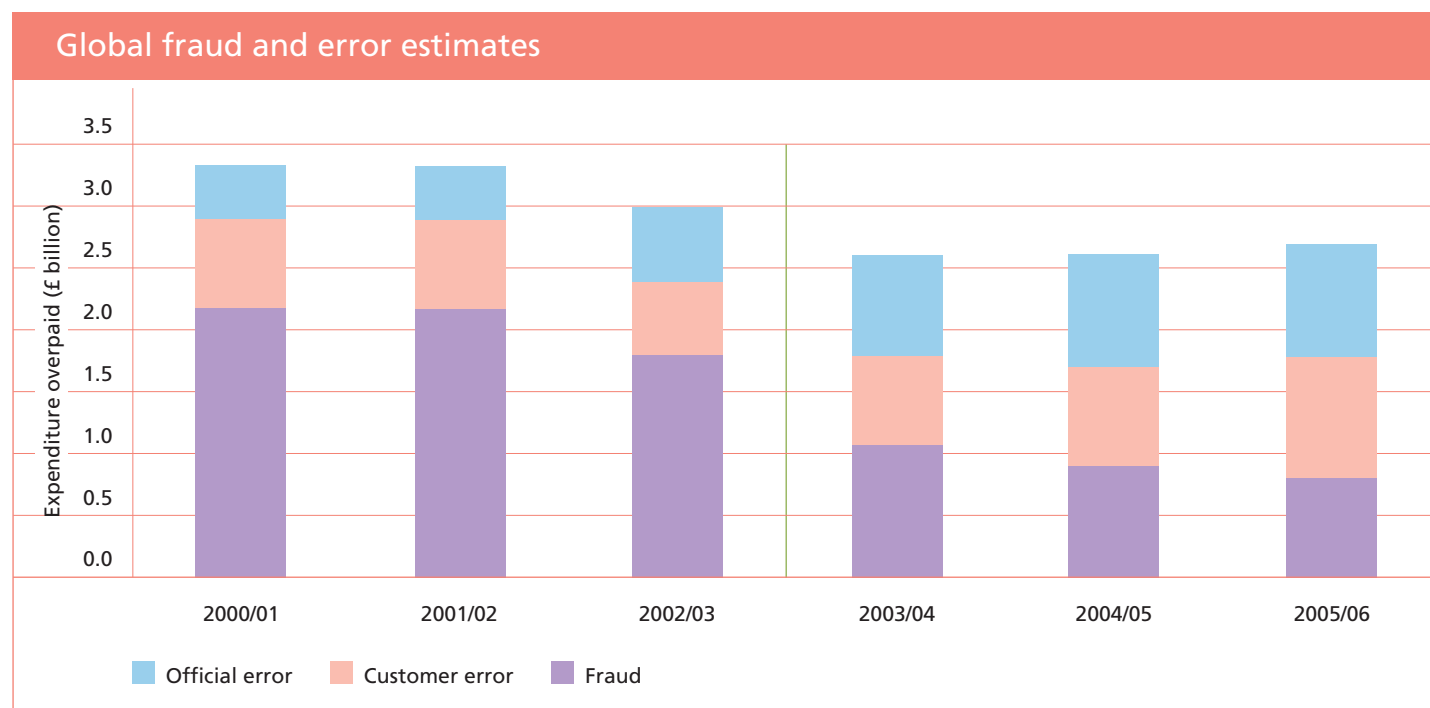
1.16 We know honest people can make honest mistakes. But our internal research indicates that customers sometimes fail to fulfil their responsibility to report changes as they occur.

1.17 According to findings of our internal research, some customers fail to report changes in their circumstances for the following reasons:

- Customers' awareness and knowledge of the specific changes that have to be reported can be patchy. They understand the general need to report changes but don't understand what this means in practice, for example if a child leaves home temporarily.
- Customers struggle to apply the requirement to report changes in circumstances to real-life situations. In particular, it can often be difficult to work out when a change has occurred (for example, slight deterioration in a medical condition), and whether it should be reported.
- Customers also assume that when they report a change of circumstance to one part of the Department or their local authority, the information is automatically shared with other relevant parts of the Department, and that they therefore do not need to inform them separately.

1.18 We accept that we have to do a lot more to explain the requirements of individual benefits to our customers more clearly and on a more frequent basis. Simplification of complex rules will help, and we need to support those who make honest mistakes while taking a harder line with those who fail to take reasonable care to comply during the lifetime of their claim.

Figure 2: Total overpaid benefit expenditure between 2000/01 and 2005/06



Source: Department for Work and Pensions, Resource Accounts between 2000/01 and 2005/06.

## Size of the challenge

1.19 Our latest estimates indicate that approximately £0.9 billion (around 0.8 per cent of total benefits expenditure) was overpaid across the benefits system as a result of official error in 2005/06. Of this, Income Support, Jobseeker's Allowance, Pension Credit and Housing Benefit accounted for approximately £520 million, which is around 60% of the total loss from official error in all benefits.<sup>6</sup>

1.20 We estimate that a similar amount (approximately £1.0 billion) was overpaid due to customer error in 2005/06. Again, income-based benefits such as Income Support, Jobseeker's Allowance, Pension Credit and Housing Benefit accounted for approximately £650 million (around two-thirds of the amount paid incorrectly due

to customer error).<sup>7</sup> Figure 2 shows the amount of benefit expenditure overpaid due to fraud and error over the last five years.<sup>8</sup>

1.21 But it should be noted that not all of these overpayments represent a monetary 'loss' to the taxpayer. This is because these figures estimate gross total overpayments in the benefits system and do not take account of any money that we recover during the year. For example, the Department and local authorities recovered a total of £489 million in overpaid benefits from customers in 2004/05.

1.22 The Department's auditor, the National Audit Office, considers this level of fraud and error to be above the level acceptable to Parliament. For this and other reasons, the Department's accounts have been qualified by them for the last 17 years.

<sup>6</sup> Department for Work and Pensions, 2006, *Resource Accounts 2005/06*.

<sup>7</sup> Department for Work and Pensions, 2006, *Resource Accounts 2005/06*.

<sup>8</sup> The green vertical line between 2002/03 and 2003/04 in Figure 2 indicates the point at which the Department's measurement system was updated.

## How does this compare with other countries?

1.23 In July 2006 the National Audit Office published a report following an international benchmarking exercise of fraud and error in eight countries.<sup>9</sup> It found that the Department's levels of fraud and error were comparable with those of other countries and noted that the other seven countries placed less emphasis than the UK on measuring and reporting the occurrence of official and customer error.

1.24 The report concluded that the Department is at the forefront in developing estimates of losses from fraud and error, and compares well in terms of focus and activities to combat the problem. The Department also stands out in developing a comprehensive range of actions in the area of prevention and detection.

'... the Department not only shows above average awareness of the specific issues of error, but is distinguished by a comparatively comprehensive range of actions both in the areas of prevention and of detection.'

National Audit Office<sup>10</sup>

## Our strategy

1.25 This document sets out in more detail our strategy for reducing both customer and official error rates within the benefits system over the next five years to 2012. It focuses on the practical steps the Department and local authorities will take to ensure we pay all of our customers the right amount of benefit every time a benefit payment is made.

<sup>9</sup> Comptroller and Auditor General, National Audit Office, 2006, *International benchmark of fraud and error in social security systems* (HC 1387), 20 July.

<sup>10</sup> Comptroller and Auditor General, National Audit Office, 2006, *International benchmark of fraud and error in social security systems* (HC 1387), 20 July.