To: UC Programme Board Members   **From:**   **Della McVay**
                                          Sponsor: **Neil Couling**
                                          Author: s40

Issue: *Update: Universal Credit (UC) Fraud and Error.*

This paper has been provided to Programme Board members: For Information Only

Fraud and Error

1. DWP publishes annual fraud and error estimates across different benefits. By 2023, DWP will be responsible for an estimated 22 million claimants, 4 million more than now, as Tax Credit and Housing Benefit claimants of working age move to Universal Credit (UC). The Full Business Case for UC shows that UC provides a Net Present value of £34bn (over 10 years) compared to a total investment cost of £2bn, and that £7.5bn of this value is derived from reduced fraud and error in the system over the same 10 years, with a saving to the exchequer in steady state of £1.3bn.

2. It is true that Fraud and Error is at the highest level since 2006, but it's been at this highest level many times in the interim. As even NAO reports acknowledge, the level has been 2.2% before – it was that level in 2006/7; 2008/9 and 2009/10. So although we succeeded in bringing down the level to as low as 1.8% in 15/16, the current level is not unusual (and some of our internal analysis shows that it was actually increasing without UC).

3. As above, we have always said that UC <u>would</u> increase DWP's MVFE level, and therefore what is happening now is in line with our forecast. The £1bn annual saving that UC will make from losses due to F&E and Overpayments is compared to a baseline of total welfare losses - i.e. once we include Tax Credits (and even then, only once we include Tax Credits Overpayments, not just Tax Credits F&E). However, because the F&E and Overpayments in Tax Credits are so high, even once those savings from UC are achieved the residual amount of losses coming in to DWP from that additional TC expenditure will still raise up DWP's overall level when compared to pre-UC.

4. UC's design features – for example, increased sensitivity to earnings, coupled with UC not having the annual 'income changes disregard' that is present in Tax Credits means that overall losses due to fraud, error and overpayments across welfare as a whole are expected to fall.

5. Our internal estimates also show that losses due to overpayments in UC are less than the losses due to overpayments that would have occurred had the equivalent caseload still been on the legacy system[1].

6. Most welfare losses arise from failure to report changes of circumstances. UC provides a single, digital interface through which claimants can report these changes more easily, thus preventing errors occurring in the system. Some of the key design features of UC supporting this include:

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1. [1] By "the legacy system" we <u>include</u> Tax Credits as well as DWP's legacy benefits.

7. Real Time Information (RTI) data – UC payments are based on RTI data that provides monthly information about PAYE earnings and non-state pension payments received by claimant each month.

8. The removal of the "Tax Credits hours" rule - entitlement to Tax Credits is dependent on working a certain number of hours which can be misreported. In Universal Credit, entitlement is based on income amount rather than hours, so this cause of overpayment will not exist.

9. Ending Tax Credit Claims - HMRC requires claimants to renew their Tax Credits claim each financial year by the end of July but, if they do not submit a renewed claim, they continue to be paid until the claim times out – UC removes this and pays up to date accurate entitlements.

10. Sensitivity to changes in earnings - UC does not have any income change disregards in place, as is currently the case in Tax Credits. Any change in the amount of income will straightaway impact the amount of UC a claimant receives

11. Capital limits - Unlike the Tax Credits system, UC entitlement is dependent on the amount of capital owned.

12. The Real Time Information (RTI) system is working well with over 99% of individual employment records now being reported in real time. The final 1% accounts for user error where names are incorrectly entered, therefore not matching to the National Insurance numbers (NINO). As we deliver the UC Programme, we are learning about the fraud and error risks that emerge and are building in controls to mitigate them, including the use of new data sources to generate prompts for agents. Our Risk and Intelligence Service is using increasingly sophisticated data and analytical tools to uncover and prevent incorrect payments being made and our Cyber Resilience Centre, a defence against web-enabled fraud, is already supporting organised crime investigations. Referrals to our fraud investigators has triggered joint DWP and Police activity.

13. The online and automated nature of the UC service also offers us opportunities to deploy analytical methods to detect and design out fraud and error, and simplify the claimant journey. We are also working with other data suppliers in order to identify potential "Living Together" fraud and we have developed new data matching rules to identify self-employed fraud and error too. Our UC "Landlord Portal" is also helping to verify housing costs with social rented sector landlords and over 700 social landlords are signed up to the portal. We are also using transaction risking to identify potential private rented sector housing costs fraud. This identifies specific markers and helps us identify high risk tenancies at the earliest point.

14. There is currently a National Audit Office (NAO) study which started early September 2019. It is seeking to answer the following question: *Is the Department for Work and Pensions doing all it can to achieve the lowest feasible levels of (income-related) fraud and error in the benefits system?* The study commenced in July 2019 and fieldwork is expected to complete by the end of September/early October; the report is expected to be published in February 2020 and a Public Accounts Committee (PAC) held in March 2020.

Advances Abuse

15. As has been recently reported in the media, it has not taken very long for a minority to work out that they can apply online for advances and fraudulently access benefit money either by inflating their own circumstances or, in the cases of some more organised crime, persuading and then supporting individuals to apply for "free money" or "government loans", which is nothing new, Crisis Loans from 1988 to 2013 were subject to abuse. The fraudsters do this in exchange for a cut – the money then turns out to be a UC advance made through a new UC claim which the individual then has to pay back.

16. The scale of this is relatively small: we have had around 76,000 staff referrals for this type of fraud; and 5.1 million claims made to Universal Credit (data at 11th July). These referrals therefore apply to less than 2% of all Universal Credit claims. We have completed 1183 fraud and compliance investigations for Universal Credit advance payments, with 1140 of those investigations - equivalent to 96% - resulting in an overpayment being identified. The value of these overpayments is £1,755,132.67 (data at 31st August 2019).

17. We are also running communications campaigns internally and on social media to raise awareness with both claimants and staff, and to remind people of the importance of safeguarding their identity. We are committed to the use of penalties, including tough financial penalties and prosecution to discourage this fraudulent behaviour. If a claimant has been a victim of a scam, and has not benefited from an advance in any way, they will not be asked to repay it. We consider all cases on their own merits and decisions are made on the strength of the evidence provided.

18. On the 18th September 2019 an operational change has been made which tackles this serious fraud in the short-term. This change means that claimants will only be able to apply for an advance online or by telephone after they have attended a face to face appointment at the Jobcentre or after a home visit if they cannot physically attend.

19. We have also agreed to bring forward work to allow for real-time validation of children in a claim, through integration with HM Passport Office. This option reduces the advance amount available to non-genuine claims by verifying children in real-time; and with a knock off limitation of the housing element available. This has always been planned as an improvement as it also delivers operational efficiencies. We estimate that this change will be deployed early November. Not all children can be validated in this way – e.g. children born before 2009, as well as children whose births have been registered in Scotland, Northern Ireland or abroad. A process to validate most children that cannot be validated by the Passport Office within 24 hours of a claim is also being designed.

20. We continue to work with Social Media sites to shut down pages which promote this fraud. We have shut down 125 pages to date.

21. It is not possible, at this stage, to estimate the amount of money that DWP has paid out in fraudulent advances. The majority of the cases referred to our Fraud team, to date, are still under investigation.

22. As a result of a request from the Work and Pensions Select Committee, the NAO included Advances Fraud as part of their current DWP F&E study. Fieldwork is now complete. An emerging findings meeting has been scheduled for 24th September.

23. We remain vigilant to all forms of fraud and are constantly refining our processes to ensure Universal Credit remains both accessible and secure, with those who need support getting it.