Estimated Fraud and Error Savings 2011/12 to 2014/15

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Disclaimer

This analysis represents internal DWP management information and performance reporting. It is used to track progress against initial planning assumptions around fraud and error savings set out in the fraud and error strategy 2010.

The figures supplied are derived from unpublished information and have not been quality assured to National Statistics or Official Statistics publication standard. They should therefore be treated with caution.

Figures have been subject to internal quality assurance and audit; however a degree of uncertainty will always remain around the impact of activity in expenditure as a number of assumptions are employed to derive the final estimates of savings. An on going programme of work is focussed on refining these estimates, improving the methodology used to calculate savings and increasing understanding of the uncertainty attached to these figures.

Background

In October 2010 the joint fraud and error strategy 'Tackling Fraud and Error in the benefit and tax credit systems' was published.[1] This set out the broad strategy for reducing the level of fraud and error for DWP benefits system. This strategy was followed by a detailed delivery plan which set out how the broad strategy would be delivered and monitored over the course of the spending review period.[2] It set out plans for a range of initiatives to be delivered by a new Fraud and Error programme that would result in:

- A reduction of the proportion of expenditure overpaid from 2.2 per cent in 2009/10 to 1.7 per cent in 2014/15
- An £800million reduction in the gross annual amount of overpaid benefits by DWP (of which £200million related to Tax Credits)
- A cumulative saving to the Department's annually managed expenditure (AME) of £2.4billion over the period 2011/12 to 2014/15

The Department's Fraud and Error national statistics publication 'Fraud and Error in the Benefits System' measures the gross amount of benefit expenditure overpaid each year.[3] This has been used to track progress against commitments to reduce headline overpayments by £800million and to 1.7 per cent respectively.

Measuring progress against the initial commitment to deliver £2.4billion of savings to AME is more complicated. The Department publishes information on benefit expenditure at each fiscal event[4], however movements in the level of expenditure for each benefit are driven by a range of demographic and policy factors, not just initiatives relating to fraud and error. For this reason, it is not possible to directly disaggregate the specific impact of fraud and error initiatives on departmental expenditure from departmental expenditure information. To overcome this problem, a range of approaches have been undertaken to attempt to measure the impact of

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[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214334/tackling-fraud-and-error.pdf
[2] http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/writev/668-i/fesdv6.pdf
[3] https://www.gov.uk/government/collections/fraud-and-error-in-the-benefit-system
[4] https://www.gov.uk/government/collections/benefit-expenditure-tables

various activities. Regular monitoring of the initiatives is undertaken to assess whether the original intended savings are being achieved.

During the period 2011-12 to 2014-15 17 new initiatives have been put in place to drive reductions in fraud and error over and above what the department is already undertaking. Table 1 summarises the suite of initiatives undertaken during this period. These initiatives include both those originally set out as part of the 2010 strategy, and new initiatives that have been undertaken subsequently.

Table 1. List of initiatives that contribute to Fraud, Error and Debt savings 2011-12 to 2014-15	
Initiative	**Description**
Case Cleanse	A range of initiatives to target and review high risk cases and establish whether an incorrect payment is being made
Real Time Information / Real Time Earnings	Matches of DWP benefit claimants to HMRC's Real Time Information system to establish whether incorrect earnings or occupational pension information is recorded on the claim
ATLAS	Improved sharing of data between DWP, HMRC and local authorities to ensure that correct details on DWP and HMRC benefit status are being recorded on Housing Benefit claims
Abroad Fraud	Increased use of data matching and life certificates to check the eligibility for State Pension of those living abroad
Credit Reference Agency	Use of Credit Reference Agency data with the DWP caseload to highlight cases with higher risk of having an incorrect payment
Debt initiatives	A suite of initiatives aimed at improving the total value of debt recovered over the spending review period
Sanctions and penalties	Use of a tougher suite of civil, administrative and loss of benefit penalties to penalise claimants with a detected fraud or error
The Fraud and Error Reduction Incentive Scheme (FERIS)	A payment by results scheme to incentivise local authorities to reduce the amount of overpaid Housing Benefit

Overall it is estimated that these initiatives achieved around £2billion of savings over the spending review period.

Method

Because there is a substantial variation in the way in which these initiatives target fraud and error no one single methodology has been used to estimate savings. Instead, a range of different methodologies have been employed to estimate the impact of each new initiative over the period. Typically the following approach is taken:

a) Establish changes to benefit awards that have occurred as a result of the activity

b) Estimate the impact of these changes to benefit awards on benefit expenditure and debt recovery

Establishing changes to benefit awards that have occurred as a result of this activity

Due to the wide ranging nature of initiatives undertaken during the time period a range of approaches have been taken to estimate the impact of new activity on changes in benefit entitlement. These include:

a) Direct recording of the changes to benefit awards made by new operational units and initiatives set up to reduce fraud and error

b) Use of departmental administrative datasets to assess changes to awards made by a given initiative

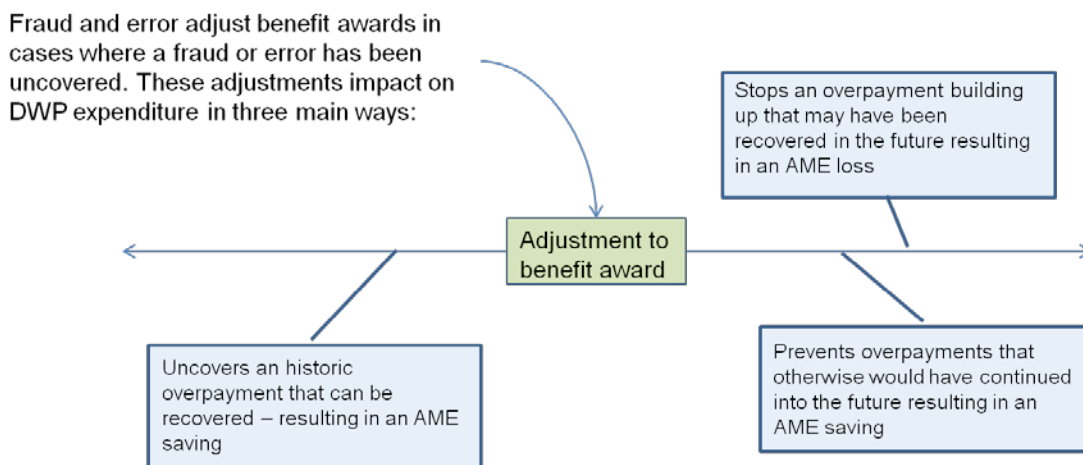c) Controlled evaluations to establish additional impact of new activity

Changes to benefit entitlement made as a result of fraud and error activity are known as the monetary value of adjustment (MVA) and can either be negative (if an overpayment has occurred) or positive (if an underpayment has occurred). The exact MVA is calculated by subtracting the original benefit entitlement from the revised entitlement after fraud or error activity has occurred.

Estimating the impact of changes to benefit awards on expenditure

Changes to awards can affect benefit expenditure in three main ways:

1. Preventing over and underpayments that the Department would have made in the future

2. Uncovering historic over and underpayments that the Department can now look to recover/pay back

3. Stopping the build up of over and underpayments that may have been detected and recovered and paid back in the future

Figure 1. Potential savings from additional detection of overpayments

Fraud and error adjust benefit awards in cases where a fraud or error has been uncovered. These adjustments impact on DWP expenditure in three main ways:

Stops an overpayment building up that may have been recovered in the future resulting in an AME loss

Adjustment to benefit award

Uncovers an historic overpayment that can be recovered – resulting in an AME saving

Prevents overpayments that otherwise would have continued into the future resulting in an AME saving

1.1.1 Estimating the value of future prevented overpayments

A number of sources are used to estimate the potential future duration of overpayments uncovered by fraud and error initiatives. These include:

• 'Fraud and Error in the Benefits System' dataset – a national statistics dataset which captures information around how long overpayments had lasted at the point of being detected by the sampling exercise

• DWP debt management dataset – a record of overpayments that have been detected by DWP. Information is recorded on the historic durations of overpayments at the point of detection by the Department.

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Durations from the above datasets are tailored to the individual fraud and error initiatives under consideration to refine estimates of the potential impact of each activity. For example durations have been broken down by:

- Benefit (which benefit the over/underpayment relates to)
- Error type (whether the over/underpayment relates to fraud, claimant error or official error)
- Overpayment reason (if the over/underpayment is for a specific reason eg. Incorrect earnings, occupational pension etc.)

To estimate the length of time an overpayment may run for into the future an assumption is made that, on average, overpayments are detected half way through their life and therefore that on average, the duration an overpayment lasts into the future will be equivalent to the average past duration estimated by the datasets above.

Final savings estimates are typically calculated by multiplying the downward adjustment to benefit award by the estimated duration the overpayment would be expected to last into the future.

Value of future prevented overpayments =

MVA * Future overpayment Prevented Duration

Estimating the value of historic overpayment that will be recovered

To estimate the value of historic overpayments uncovered by DWP activity the above overpayment durations are applied to the MVA figures. It is again assumed that, on average, overpayments are uncovered half way through their life.

To estimate savings to the Department from uncovering these overpayments a series of debt recovery rates are applied to the estimated value of historic overpayments. These recovery rates estimate how much of each historic debt uncovered will ultimately be recovered by the Department, and therefore what the saving is from the new overpayment that has been uncovered.

Some initiatives set out in the initial commitment to £2.4billion of AME savings relate solely to increased recovery of historic debt. For these initiatives the increase in debt recoveries from the baseline position has been directly measured and included within overall savings estimates.

Value of overpayment recoveries =

MVA * Historic Overpayment Prevented Duration * Recovery Rate

Estimating the value of overpayment recoveries that would have occurred anyway

In some cases detecting fraud and error earlier prevents an overpayment building up that might have been found at some point in the future. Stopping the overpayment earlier can therefore reduce the value of overpayment recoveries that are being made in the future.

This value is estimated using the overpayment durations and recovery rates previously set out. Information of the total value of overpayments is then combined with analysis around the proportion of errors that are ultimately found by the Department at some point (the detection rate) to estimate the value of those recoveries that would ultimately be found in the future.

Detection rate figures are derived by comparing the amount of overpayments the Department uncovers each year (from the DWP debt management dataset) to the amount of money that is overpaid each year (from the 'Fraud and Error in the benefits system' national statistics publication)

Value of recoveries that would have been found at some point anyway =

MVA * Total Overpayment Prevented Duration * Detection Rate * Recovery Rate

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Final results

Final savings are estimated by adding together the estimated value of prevented overpayments and historic recoveries and netting off the value of what would be expected to have been found and recovered at some point anyway. The estimated value of underpayments is subtracted from the estimated value of overpayments to calculate the net impact on expenditure.

> Total estimated savings =
>
> Estimated Future Prevented Overpayments + Estimated Historic Recoveries – Estimated value of recoveries that would have been found at some point anyway

Not all initiatives under consideration can be calculated this way. Some initiatives deliver savings, but do not lead to a change in expenditure or recoveries. For example, the imposition of financial penalties on cases with a detected fraud or error delivers savings but does not directly lead to a reduction in benefit expenditure. A separate methodology, based on management information on the volume and value of these penalties, has been used to estimate savings in this case.

Combined savings from the additional initiatives undertaken during the spending review (see Table 2) are estimated at around £2billion.

Table 2. Estimated impact of fraud and error policies on expenditure during the spending review period (£millions)				
2011-12	**2012-13**	**2013-14**	**2014-15**	**Total**
300	500	500	700	2000

Context and further information

It is important to view the estimates of savings achieved in the context of other information that is available around the level of fraud and error in the benefits system.

The 'Fraud and Error in the Benefits System' national statistics publication provides an estimate of the amount of money, and proportion of expenditure, that is estimated to be over and underpaid each year.

The link between estimates of achieved savings from individual initiatives and the level of fraud and error estimated by the national statistics publication is not straightforward. A number of issues prevent a direct comparison between the two sources of information being drawn. For example:

- Some savings estimated to have been achieved by fraud and error activity relate to benefits which are not continually measured for the purpose of the national statistics sample. Only Housing Benefit, Income Support, Job Seeker's Allowance, Pension Credit, Employment and Support Allowance, and State Pension (official error only) are measured every year for the national statistics publication. Savings achieved on other benefits are therefore unlikely to translate to a change in the level of fraud and error recorded in national statistics, instead other internal recording mechanisms are used to track savings for these benefits.

- Fraud and error policies may be achieving substantial savings, but if new fraud and error enters the system at the same time it is possible that the level being picked up by the national statistics publication will remain unchanged, or even increase.

- The headline rate of fraud and error in the national statistics can be influenced by changes in the amount of expenditure on each benefit. For example, if expenditure on a benefit with relatively low levels of fraud and error increases then the headline proportion of error in the system will reduce, all other things being equal. This could mask the impact of initiatives aiming the change the level of error.

- Achieved savings from initiatives are driven by both reducing the amount of money overpaid, and increasing the amount of money that has previously been overpaid that is subsequently recovered. The headline measure of fraud and error in the national statistics only captures the amount of money that is being overpaid, and does not factor in how much is subsequently recovered. In the provisional 2014/15 national statistics a net MVFE measure was introduced for the first time. This measure estimates the net amount of money overpaid during 2014/15 once overpayment recoveries are taken into account.

- The national statistics measure is derived from a sample. As with all samples there is some uncertainty around whether the sample that has been taken is representative of the overall population. For example, the provisional rate of overpaid expenditure in 2014/15 is estimated at 1.9%; however, this means that we can be 95% confident that the true rate lies between 1.6% and 2.2%. Uncertainty driven by the nature of the sampling exercise makes it difficult to be confident that changes seen in national statistics estimates are both statistically significant and causally related to activity that has been undertaken by the Department.

The original estimates at the outset of the Fraud and Error strategy estimated an additional £2.4billion of savings and a £800million reduction in the yearly amount of money overpaid would result in a fall in the headline proportion of money overpaid from 2.2% in 2009/10 to 1.7% in 2014/15

Figure 2 sets out the headline rate of fraud and error as envisaged in the original fraud and error strategy and the path that the headline rate has taken in reality.

The provisional release of the national statistics estimated that 1.9% of all expenditure was overpaid in 2014/15. The final estimate for 2014/15 will not be known until the release of the full year statistics in winter 2015.

Figure 2. Proportion of benefit expenditure overpaid – original planning assumptions vs. actual
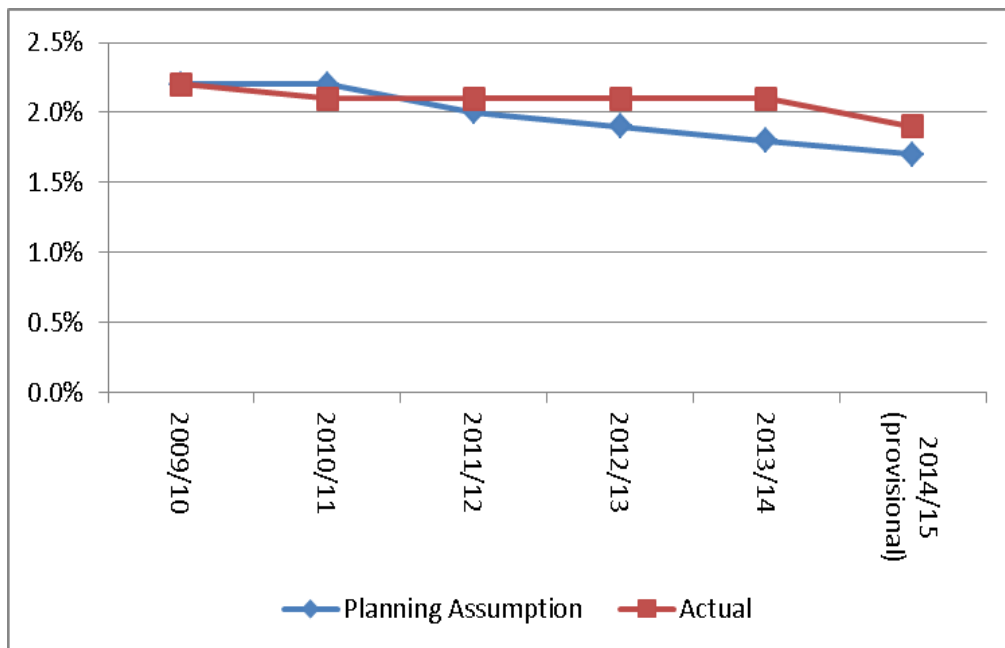
Note: Planning assumption for 14/15 is actual planning assumption made as part of the 2010 fraud and error strategy so represents the planned level at the end of 2014/15. Actual figures are taken from provisional 2014/15 national statistics.

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