

# £2.6 billion fraud & error. Too much?

Should the Department of Work & Pensions have its accounts signed off?  
 RAND Europe's international benchmark of fraud and error in social security systems

## BACKGROUND

The UK social security system is highly complex, delivering a wide range of income-related benefits to a diverse population. This complexity increases the chance of error by customers or staff, and may facilitate fraud.

In 2004-2005, overpayments due to fraud and error were estimated at £2.6 billion. Partly as a result, the UK National Audit Office (NAO) qualified the annual accounts for the Department of Work and Pensions (DWP) for the 16th year running, citing 'unacceptable' levels of fraud and error.

To help Parliament decide whether continued qualification was justified, the NAO commissioned RAND Europe – a strategic partner – to assess DWP performance in this area compared to that of other social security agencies.

## RESEARCH APPROACH

The study had three aims:

- To examine social security fraud and error rates in different countries
- To establish how the UK performance compared
- To find examples of good practice in addressing fraud and error.

We identified 8 OECD countries similar to the UK in terms of wealth per capita, population structure and benefit expenditure. We then defined a core template of questions to be addressed:

Context	Benchmarking	Good practice
<ul style="list-style-type: none"> <li>• How is your social security system structured?</li> <li>• How much do you spend on social benefits and pensions?</li> </ul>	<ul style="list-style-type: none"> <li>• What is the level of fraud and error in your system? 5-10 year trends?</li> <li>• How do you define fraud and error?</li> <li>• How do you measure fraud and error?</li> </ul>	<ul style="list-style-type: none"> <li>• What are the main causes of fraud and error?</li> <li>• What actions are you taking to combat fraud &amp; error, or to reform your social security system?</li> </ul>

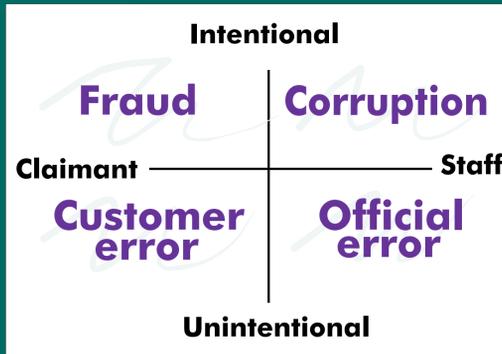
## COMPARISONS ARE NOT STRAIGHTFORWARD

All countries studied had a 3-tier benefit system: universal benefits; contributory benefits; and means-tested 'top up' benefits. But other differences make it hard to compare fraud and error rates across systems, notably:

1. Institutional architectures: centralised (UK, Australia, Ireland) vs. devolved or federal systems (France, Canada, US)
2. Emphasis: core benefits (NZ) vs. tax credits (US, Canada)
3. Responsibility for accurate payment, whether individual claimant responsibility (Anglo Saxon countries) or shared between state and citizen (Sweden)
4. Measurement systems: overall fraud and error rates (UK) vs. targeted snapshot reviews or review of fraud-reduction initiatives.

## WHAT IS FRAUD AND ERROR?

In the course of this work, RAND Europe developed a common typology. This is now being widely used to provide consistent definition of the terms.



## UK COMPARES WELL

We found that total fraud and error rates range between 2 and 5 per cent of expenditure in countries where comparable data is available.

With an overall rate of 2.3%, the DWP was, in fact, at the low end of this spectrum. UK fraud rates fell by about 75% from 2000 to 2006, which compared favourably with other countries where trend data exists. However, official and customer error rose slightly over the same period.



**if**  
 I keep quiet about working a few extra hours it doesn't make me a benefit thief.

**but**  
 keeping quiet about coming into some money doesn't make me a benefit thief.

**NO IFS, NO BUTS.**  
 Benefit fraud is a crime, those found breaking the law face a criminal record.

## COUNTRIES CAN LEARN FROM 'BEST' PRACTICES ELSEWHERE

Anti-fraud and error activities fall broadly into 3 categories. The UK focuses mainly on detection and deterrence. The DWP could usefully adopt some of the more targeted approaches used elsewhere, and increase its focus on prevention.

Prevention	Deterrence	Detection
<ul style="list-style-type: none"> <li>• Claimant information sessions with high risk groups (Canada)</li> <li>• Campaigns to inform claimants of both rights and obligations (Netherlands, New Zealand)</li> <li>• Line manager accountability for staff error (Canada), increased staff training (Ireland)</li> </ul>	<ul style="list-style-type: none"> <li>• Targeted and refined data matching strategies (Australia, New Zealand)</li> <li>• Risk-based reviews (Canada, UK), and/or random and time-based reviews</li> </ul>	<ul style="list-style-type: none"> <li>• Increased sanctions and prosecution rates (Ireland, US)</li> </ul>

## IMPACT

**Catalyst for change.** The research changed the perception of the DWP as a poor performer, revealing the UK leads good practice on comprehensive measuring systems. The UK fraud and error rate has since dropped below 2%, with the DWP aiming at a 1% target.

**Towards DWP sign-off.** RAND Europe is working with the NAO and DWP to design a portfolio of cost-effective anti-fraud and error measures. The hope is that Parliament will finally lift the qualification when this work is presented.

**International interest.** The World Bank has asked RAND Europe for input on fraud and error prevention in social security systems of developing countries. The work has been used in distance learning events for client departments and conferences for World Bank staff. DWP has also presented the work at a Six Nations benefit fraud conference.

**Benchmarking worthwhile.** Our research showed that it is possible to benchmark across diverse systems and yield worthwhile insights. The systematic approach used here has since been applied to other benchmarking challenges, from student retention to single farm payments.



## EUROPE

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