£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.

BACKGROUNDS

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.

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.

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.

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
- Claimant information sessions with high risk groups (Canada)
- Campaigns to inform claimants of both rights and obligations (Netherlands, New Zealand)
- Line manager accountability for staff error (Canada), increased staff training (Ireland)

Deterrence
- Targeted and refined data matching strategies (Australia, New Zealand)
- Risk-based reviews (Canada, UK) and/or random and time-based reviews

Detection
- Increased sanctions and prosecution rates (Ireland, US)
This PDF document was made available from www.rand.org as a public service of the RAND Corporation.

This product is part of the RAND Corporation corporate publication series. Corporate publications describe or promote RAND divisions and programs, summarize research results, or announce upcoming events.

The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world.

Support RAND

Browse Books & Publications
Make a charitable contribution

For More Information

Visit RAND at www.rand.org
Explore RAND Europe
View document details

Limited Electronic Distribution Rights

This document and trademark(s) contained herein are protected by law as indicated in a notice appearing later in this work. This electronic representation of RAND intellectual property is provided for non-commercial use only. Unauthorized posting of RAND PDFs to a non-RAND Web site is prohibited. RAND PDFs are protected under copyright law. Permission is required from RAND to reproduce, or reuse in another form, any of our research documents for commercial use. For information on reprint and linking permissions, please see RAND Permissions.