



Department
for Work &
Pensions

ANNUAL REPORT & ACCOUNTS 2021-22



HC 193

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
607,000	3,633,000	5,247,000	6,299,000	7,997,000	9,735,000	10,089,000	10,299,000	10,487,000	10,708,000

Source: [Automatic enrolment – The Pensions Regulator](#)

Fraud and error in benefit expenditure

Fraud against the welfare system

The nature of fraud has changed over the last 20 years and is now the most commonly experienced crime in the UK, accounting for 42% of all crimes. Whilst these are mainly offences against individuals and businesses, fraud is also an increasing challenge in public sector, with reported losses estimated to have been at least £29 billion a year in 2019-20⁶. This section talks through the Department’s findings where it has been able to estimate the levels of fraud and error from its sampling work, explains what actions we have taken and are planning to take to reduce those levels and sets out our estimates of the savings that we have achieved so far from our fraud and error activities.

When considering the trend of fraud and error levels in DWP over the past several years, we need to take into account that, as the Tax Credits system gets replaced by Universal Credit, much of the fraud and error previously observed in Tax Credits will now be expected to occur within Universal Credit; and that, furthermore, some types of claimant interactions that would not be considered as contributing towards fraud and error when they occur within Tax Credits are considered as contributing towards fraud and error when they occur within Universal Credit.

In the Tax Credits system, entitlement is only fixed at the end of the financial year. “Fraud and error” can therefore only occur when that entitlement calculated at year end is based on incorrect information. Prior to that point, throughout the year, Tax Credits is paid to the claimant based on an estimate of what their final entitlement is likely to be at the year end. Claimants who report changes of circumstances late may therefore end up being overpaid Tax Credits during the year, but so long as HM Revenue and Customs are in possession of the correct information at the end of the year, when the entitlement for that past year is finalised, those in-year overpayments will not be considered as either fraud or error. (The in-year overpayments do nevertheless result in lost AME expenditure, because a significant proportion of them end up not being fully recovered from the claimants.)

Within Universal Credit, in contrast, entitlement is fixed each month when the claimant gets paid their benefit. Therefore, if the claimant receives an amount of benefit which is not in accordance with their circumstances at the point they are paid their monthly benefit, it will be considered as “fraud and error”. Hence, changes of circumstances that are not notified or identified by that point each month will result in fraud and error.

Consequently, the late reporting or identification of changes of circumstances, which would only lead to “in-year overpayments” but not “fraud and error” were they to occur in Tax Credits, would lead to “fraud and error” were they to occur in Universal Credit.

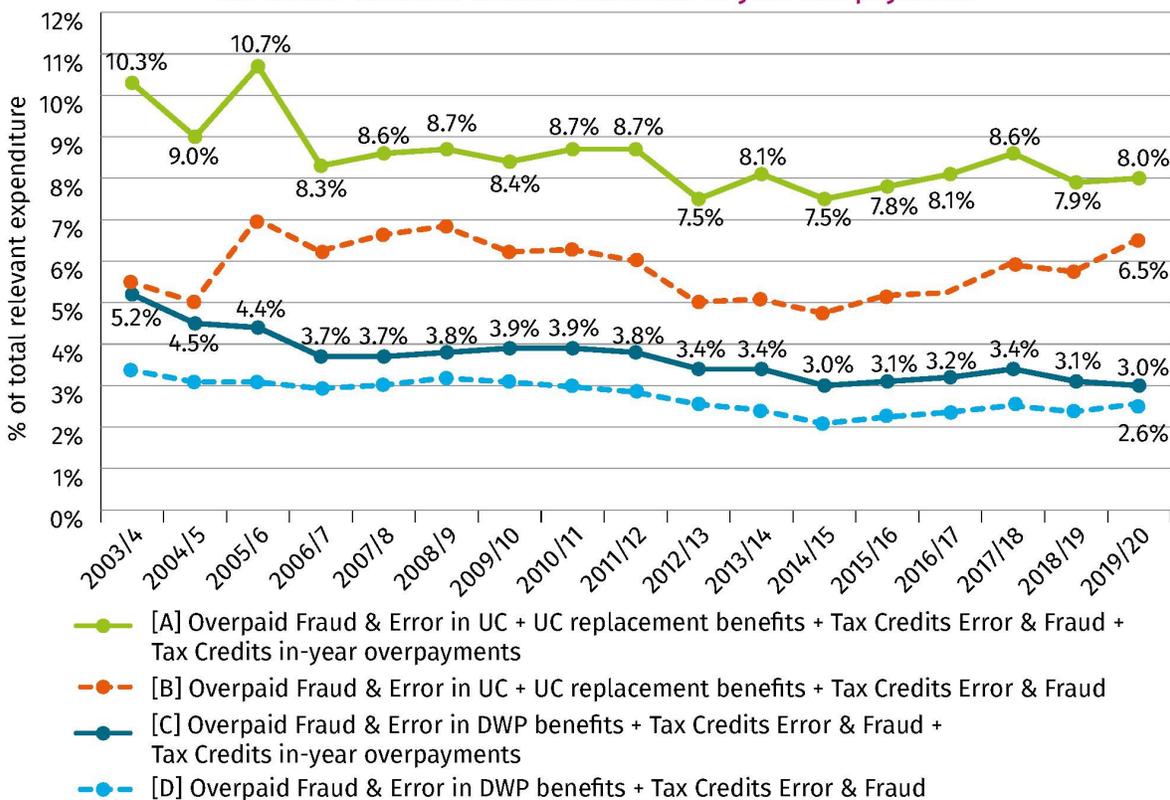
This means that we would naturally expect the level of fraud and error within DWP to increase over the years that Universal Credit is expanding and replacing Tax Credits. Therefore, when considering whether recent levels of fraud and error should be considered unusually high, we need to assess the level against the wider picture, which incorporates not only DWP benefits but also Tax Credits - both the Tax Credits Error and Fraud and the Tax Credits in-year overpayments.

6 2609-Executive-Summary-Fraud-Landscape-Bulletin-V7.pdf (publishing.service.gov.uk)

The chart below shows the overall level of fraud and error and in-year overpayments – incorporating the overpayments due to Fraud and Error in DWP benefits plus Tax Credits Error and Fraud in favour of the claimant plus Tax Credits in-year overpayments, as a percentage of total expenditure (i.e. DWP plus Tax Credits). It also shows the overall level for Universal Credit and those benefits which are being replaced by Universal Credit (i.e. the working-age benefits), again including both Tax Credits Error and Fraud in favour of the claimant and Tax Credits in-year overpayments.

Incorporating the full effects of Tax Credits in-year overpayments when considering trends over time shows the full system effect of the introduction of Universal Credit. But the chart also shows (dotted lines) the effect that excluding those in-year overpayments would have on the trends.

Trends prior to the Coronavirus pandemic of F&E across DWP and Tax Credits with and without Tax Credit in-year overpayments



Trend of fraud and error overpayments in DWP as whole plus Tax Credits error and fraud in favour of the claimant plus the Tax Credits in-year overpayments; and within just Universal Credit and the benefits and Tax Credits that it is replacing. The chart also shows what the trends would look like if we exclude the Tax Credit in-year overpayments.

There have been several changes in the methodology used to measure fraud and error over the period shown in the chart. This means that it is not always accurate to compare the precise level in later years to that of earlier years. Nevertheless, the figures are based on published statistics which were the government’s best estimate at the time.

The chart shows that in the two years prior to the onset of the pandemic in March 2020, as Universal Credit started to replace Tax Credits at scale, the increasing trend observed over the three years prior to that was reversed – despite a backdrop of fraud in society significantly increasing over this period, with fraud now the most commonly experienced crime in the UK. Across welfare as a whole, the overall level of fraud and error plus in-year overpayments returned to the lowest level on record (3.0%). For Universal Credit and its legacy benefits, the level was around 8.0% – which, we do not view as unduly high when compared to previous years.

We believe that one of the primary reasons for this shift in the trend in those last two years prior to the pandemic was a consequence of Universal Credit replacing the legacy benefits and Tax Credits to a greater scale than previously, due to the differences in design of Universal Credit compared to the legacy system. As claims most prone to undergoing changes of circumstances, which need to be identified and processed and are therefore at most risk of overpayment, moved from legacy benefits to Universal Credit, there was an overall drop in losses. Although the rate of overpayments within Universal Credit itself was going up over that period, that increase was less than the corresponding drop in the rate of overpayments occurring in the legacy benefits and Tax Credits (Error & Fraud and in-year overpayments), suggesting that the overall move to Universal Credit had a positive effect on losses overall.

Both fraud and error and Tax Credits in-year overpayments can lead to losses to AME expenditure. The trend shown in the chart therefore indicates that, through the introduction and roll-out of Universal Credit, we succeeded in reducing some of those AME losses in the years immediately prior to the pandemic.

Final figures for Tax Credits for 2020-21 and 2021-22 have yet to be published. However, for DWP fraud and error increased significantly in 2020-21 during the coronavirus pandemic. The system of easements we introduced were one of the reasons for the huge increase in fraud that year, but we consciously prioritised payments over losses to fraud by getting money to those who needed it as quickly as possible, by streamlining our checks, which allowed us to help an extra three million people who needed our help in 2020-21. But, as previously reported, unscrupulous fraudsters, including sophisticated organised crime groups, chose to take advantage of the situation.

We can see this trend if we break down the fraud and error figures for 2020-21 (see table below) with the bulk of Universal Credit overpayments clearly arising post March 2020.

Universal Credit – Total Overpayments				
		2020-21		
	2019-20	Pre-COVID (claims that started before 17 March 2020)	COVID (claims that started after 17 March 2020)	Total
Expenditure	18,405	26,977	11,185	38,162
Overpayments (% of expenditure)	9.4%	9.8%	25.8%	14.5%
Overpayments (£m)	1,728	2,649	2,888	5,537

Last year's accounts⁷ set out exactly what we put in place to prevent losses occurring and, although COVID-19 and an increasing propensity to commit fraud continue to cause high levels of fraud and error, our resolve remains unchanged.

In summary, exploitation of the benefit system is simply unacceptable, which is why we have continued to invest in fighting fraud now and developing new policies to tackle fraud in the future. This has been set out in 'Fighting Fraud in the Welfare System', published on 19 May 2022⁸.

⁷ DWP Annual Report and Accounts 2020 to 2021 – GOV.UK (www.gov.uk)

⁸ Fighting Fraud in the Welfare System – GOV.UK (www.gov.uk)