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| <b>Title:</b><br>Single Fraud Investigation Service<br><br><b>Lead department or agency:</b><br>Department for Work and Pensions<br><br><b>Other departments or agencies:</b><br>Her Majesty's Revenue and Customs | <b>Impact Assessment (IA)</b>               |
|  | <b>IA No:</b>                               |
|  | <b>Date:</b> October 2011                   |
|  | <b>Stage:</b> Final                         |
|  | <b>Source of intervention:</b> Domestic     |
|  | <b>Type of measure:</b> Primary Legislation |
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## Summary: Intervention and Options

### What is the problem under consideration? Why is government intervention necessary?

Benefit and tax credit fraud and error is estimated to cost £5.3bn per year (published fraud and error statistics). Benefit fraud investigations are currently carried by DWP's Fraud Investigation Service and by local authorities; Tax Credit fraud is currently investigated by HMRC. However, HMRC have few investigators employed to look into Tax Credits, as much of their resource is deployed for higher value tax investigations. Currently the totality of an offence committed is not always considered if a customer is committing fraud across benefits administered by DWP, local authorities and HMRC, as each service conducts their own investigation. These arrangements are inefficient and open to charges of unfairness. Furthermore, those who commit fraud on Tax Credits are less likely to face punishment than those who commit it on a DWP benefit.

### What are the policy objectives and the intended effects?

The Government proposes the creation of a single integrated fraud investigation service with statutory powers to investigate and sanction all benefit and tax credit offences which will combine relevant resources across Local Authorities, HMRC, and DWP. The service will operate from April 2013 and will investigate Universal Credit fraud as well as legacy benefit and Tax Credit offences. This will improve efficiency, ensure all offences are taken into account and increase the number of investigations and sanctions. This is a major project involving organisational changes, new IT infrastructure, and additional resource as workloads will increase. Provision has been agreed for increasing the number of fraud investigators by around 200 and expect an increase in the volume of sanctions of 14% considered independently of other changes to the sanctions regime and strategy, 21% including other changes.

### What policy options have been considered? Please justify preferred option (further details in Evidence Base)

Option 0 – do nothing or Option 1 – create a single integrated fraud investigation service as above. The preferred approach is option 1. The government has firmly committed to reducing fraud and error in benefits administered by DWP and HMRC. Both departments have made progress in reducing fraud and error in recent years, but the current silo-based approach to fraud investigation needs overhauling in order to meet the challenge as the government is clear that the levels remain unacceptable. The new service will enable value for money savings from elimination of duplication, and will provide assurance that all offences will be taken into account. In addition, the additional resource available to the new service, and resulting efficiencies will enable a greater focus on tax credit fraud.

|  |                     |
|--|---------------------|
| <b>When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?</b>  | It will be reviewed |
| <b>Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?</b> | Yes, see Annex 1    |

## Summary: Analysis and Evidence

|                          |                       |                        |                                       |       |                           |
|--------------------------|-----------------------|------------------------|---------------------------------------|-------|---------------------------|
| Price Base<br>Year 10/11 | PV Base<br>Year 10/11 | Time Period<br>Years 5 | Net Benefit (Present Value (PV)) (£m) |       |                           |
|                          |                       |                        | Low:                                  | High: | Best Estimate:<br>-£15.8m |

| COSTS (£m)    | Total Transition<br>(Constant Price) Years | Average Annual<br>(excl. Transition) (Constant Price) | Total Cost<br>(Present Value) |
|---------------|--|---|-------------------------------|
| Low           | -  | -   | -                             |
| High          | -  | -   | -                             |
| Best Estimate | £26.8m                                     | -   | £38.2m                        |

### Description and scale of key monetised costs by 'main affected groups'

Costs are due to: new fraud referral and case management system; improvement management information systems to record data and performance; provision of self-service reporting mechanisms to allow citizens (and staff) to report suspected fraud.

### Other key non-monetised costs by 'main affected groups'

| BENEFITS (£m) | Total Transition<br>(Constant Price) Years | Average Annual<br>(excl. Transition) (Constant Price) | Total Benefit<br>(Present Value) |
|---------------|--|---|----------------------------------|
| Low           | -  | -   | -                                |
| High          | -  | -   | -                                |
| Best Estimate | £0   | -   | £22.4m                           |

### Description and scale of key monetised benefits by 'main affected groups'

Benefits arise due to a larger number of Tax Credit fraud cases being investigated and overpayments stopped – with additional deterrent effect; larger number of higher-value cases investigated due to totality of benefit fraud being taken into account (e.g. Housing Benefit, Tax Credit, and DWP benefits); and a reduction in duplication.

### Other key non-monetised benefits by 'main affected groups'

### Key assumptions/sensitivities/risks

Discount rate 3.5%

Legislation in place to allow greater powers to sanction Tax Credit  
 Efficiency savings from avoidance of silo working on a wider range of benefits: DWP, HB and Tax Credits  
 Savings from efficiencies of redeploying previously duplicated activity on joint working  
 Assumes non fraud activity/case cleanse activity achieves savings on Tax Credits

|  |                    |             |                                      |  |           |
|--|--------------------|-------------|--------------------------------------|--|-----------|
| <b>Impact on admin burden (AB) (£m):</b> |                    |             | <b>Impact on policy cost savings</b> |  | <b>In</b> |
| <b>New AB:</b>                           | <b>AB savings:</b> | <b>Net:</b> | <b>Policy cost savings:</b>          |  |           |

## Enforcement, Implementation and Wider Impacts

|   |              |                |                           |                          |              |
|---|--------------|----------------|---------------------------|--------------------------|--------------|
| <b>What is the geographic coverage of the policy/option?</b>  |              |                | Great Britain             |                          |              |
| <b>From what date will the policy be implemented?</b>   |              |                | 2013 (consistent with UC) |                          |              |
| <b>Which organisation(s) will enforce the policy?</b>   |              |                | DWP                       |                          |              |
| <b>What is the annual change in enforcement cost (£m)?</b>  |              |                | Nil                       |                          |              |
| <b>Does enforcement comply with Hampton principles?</b>   |              |                | Yes                       |                          |              |
| <b>Does implementation go beyond minimum EU requirements?</b>   |              |                | No                        |                          |              |
| <b>What is the CO<sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO<sub>2</sub> equivalent)</b> |              |                | <b>Traded:</b>            | <b>Non-traded:</b>       |              |
| <b>Does the proposal have an impact on competition?</b>   |              |                | No                        |                          |              |
| <b>What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?</b>       |              |                | <b>Costs:</b><br>100%     | <b>Benefits:</b><br>100% |              |
| <b>Annual cost (£m) per organisation (excl. Transition) (Constant Price)</b>  | <b>Micro</b> | <b>&lt; 20</b> | <b>Small</b>              | <b>Medium</b>            | <b>Large</b> |
| <b>Are any of these organisations exempt? N/A</b>   | N/A          | N/A            | N/A                       | N/A                      | N/A          |

## Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

| <b>Does your policy option/proposal have an impact on...?</b> | <b>Impact</b> | <b>Page ref within IA</b>   |
|---|---------------|-----------------------------|
| <b>Statutory equality duties<sup>1</sup></b>                  | <b>YES</b>    | <b>Separate Publication</b> |
| <b>Economic impacts</b>                                       |               |                             |
| <b>Competition</b>  | <b>NO</b>     |                             |
| <b>Small firms</b>  | <b>NO</b>     |                             |
| <b>Environmental impacts</b>                                  |               |                             |
| <b>Greenhouse gas assessment</b>                              | <b>NO</b>     |                             |
| <b>Wider environmental issues</b>                             | <b>NO</b>     |                             |
| <b>Social impacts</b>   |               |                             |
| <b>Health and well-being</b>                                  | <b>NO</b>     |                             |
| <b>Human rights</b>   | <b>YES</b>    |                             |
| <b>Justice system</b>   | <b>YES</b>    |                             |
| <b>Rural proofing</b>   | <b>NO</b>     |                             |

<sup>1</sup> Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

|                         |    |  |
|-------------------------|----|--|
| Sustainable development | NO |  |
|-------------------------|----|--|

## Evidence Base

### References

| No. | Legislation or publication  |
|-----|---|
| 1   | “ Tackling fraud and error in the benefit and tax credits systems” , published on 18 <sup>th</sup> October 2010,<br><a href="http://www.dwp.gov.uk/docs/tackling-fraud-and-error.pdf">http://www.dwp.gov.uk/docs/tackling-fraud-and-error.pdf</a> |
| 2   |   |
| 3   |   |
| 4   |   |

### Evidence Base - Annual profile of monetised costs and benefits\* - (£m) constant prices

|                                  | 10/11 | 11/12 | 12/13  | 13/14  | 14/15 |
|----------------------------------|-------|-------|--------|--------|-------|
| <b>Transition costs</b>          |       |       | £12.5m | £14.3m |       |
| <b>Annual recurring cost</b>     |       |       |        | £5.7m  | £5.7m |
| <b>Total annual costs</b>        |       |       | £12.5m | £20m   | £5.7m |
| <b>Transition benefits</b>       |       |       |        |        |       |
| <b>Annual recurring benefits</b> |       |       |        | £4.9m  | £17.5 |
| <b>Total annual benefits</b>     |       |       |        | £4.9m  | £17.5 |

\* For non-monetised benefits please see summary pages and main evidence base section

## **Evidence Base**

### **Problem under consideration**

1. DWP's Fraud Investigation Service and local authorities separately investigate benefit fraud, with HMRC concentrating their resources on tax. Each organisation has a different management structure and as a result will administer sanctions differently.

### **Rationale for intervention**

2. A realignment of resources will provide improved return on investment across the organisational boundaries.
3. The policy change was initially intended to be introduced in April 2011, which would have resulted in a net benefit over SR10 period. The start date has subsequently been delayed 2013/14 to be more in line with the introduction of Universal Credit in October 2013; as a result the breakeven point now occurs in 2015/16 so there will be a net cost during the SR10 period. From 2015/16 onwards the annual administrative savings will be approximately twice the £18m savings estimated for 2014/15.

### **Policy objective**

4. To increase the level of sanctions and prosecutions per investigator administered to Tax Credit and benefit customers committing fraud. And at the same time increase levels of overpayments of benefits thus reducing the overall amount of loss in the benefit system due to fraud and error.

### **Description of options considered**

5. The proposed option is an obvious choice as it seeks to bring together the organisations that deal with compliance to sit in the same single organisation that will be delivering Universal Credits.
6. Do nothing involves continuing to administer sanctions and prosecutions in the separate organisations. This can be discounted due to the introduction of Universal Credits because by this time the delivery of benefits will be through a single organisation.

### **Costs and benefits of each option**

7. In terms of ongoing costs, the 'Do nothing' option can be discounted as inferior considering both the costs and the benefits.
8. This is because i) the cost per investigator under the current system includes three separate management funnels, removal of which – while

the implementation has not been fully designed – leads to efficiency savings; and ii) the saving per investigator will be enhanced under the proposed new system for 3 reasons: a) wider powers to support the officer dealing with a customer so that they can deal with multiple benefits thus removing the current situation which can require multiple information exchanges between organisations; b) better prioritisation of cases within the broader organisation; and c) other improvements to referrals through the published strategy.

9. Hence the issue is whether the potential savings outweigh the implementation costs which is furthered in the ‘Policy savings’ section.

## Assumptions

10. The following assumes that:
- the Bill provides powers for all benefits and tax credits received to be assessed by fraud, compliance or accuracy checkers.
  - the IT capability is in place for this to occur.

It must be emphasised that these are early estimates, based on a very high level understanding of what the SFIS might deliver, and should be treated as indicative. It is also important to note that at this early stage these estimates focus on one operating model.

## Administrative burden and policy savings calculations

11. The following table summarises the estimated administrative costs for the proposed Single Fraud Investigation Service in terms of implementation costs and ongoing costs.

**Table 1: Annual costs for single investigation service- (£m)**

| <b>£m</b>      | <b>Implementation</b> | <b>Ongoing</b> |
|----------------|-----------------------|----------------|
| DWP Legal      | £0.0m                 | £1.3m          |
| Fraud training | £1.8m                 | £0.0m          |
| IT             | £25m                  | £4.4m          |
| <b>Total</b>   | <b>£26.8m</b>         | <b>£5.7m</b>   |

12. Further points in relation to the estimated costs of the proposed single fraud investigation service are as follows:
- No cost due to any LA staff transfer to DWP because this is currently funded through the LA Admin Subsidy regime.
  - IT costs of £25m set-up for 12/13 full start, 17% ongoing costs.
  - Assumes extra costs for solicitors to support sanctions of £1.3m.

## Estimated savings

13. The estimated annual savings are provided in the following table for the various benefits or tax credits that can be dealt with at the same time due to the new powers.

**Table 2: Estimated savings - (£m)**

| <b>Measure</b>   | <b>Savings</b> |
|--|----------------|
| I. Reduced Housing Benefit overpayments from existing DWP activity   | £0.6m          |
| II. Reduced DWP overpayments benefits from existing LA activity  | £2.8m          |
| III. Reduced Tax Credit overpayments from existing DWP activity  | £9.2m          |
| IV. Reduced overpayments on Tax Credits through non-fraud DWP activity.  | £26.3m         |
| V. Reduced Tax Credit overpayments from existing LA activity   | £5.3m          |
| VI. a) Increased performance on Tax Credits leading to increased administrative penalty collection, decreased Tax Credit overpayments and decreased DWP and Housing Benefit overpayments | £1.5m          |
| VII. Reduced overpayments of DWP and Housing Benefit by reducing the current level of duplication required across LAs and DWP.   | £7.9m          |
| <b>Total</b>   | <b>£53.4m</b>  |
| <b>Of which Tax Credits</b>  | <b>£42.2m</b>  |
| <b>Of which DWP benefits</b>   | <b>£11.2m</b>  |

14. Savings have been estimated using current activity levels of sanctions in FIS assuming for each type of saving with conservative assumptions and a phased implementation over time.

15. Derivation of I) - V) are illustrated below:

16. The savings calculation takes the form:

The estimated volume of cases currently sanctioned that could be actioned jointly \* increased savings \* adjustment for interdependencies with other projects.

I) and II) HB and DWP benefits from existing activity LA/DWP activity

17. I) Extra HB savings = 30k \* 10% \* 200 \* 91% = £556k.

- o The above assumes 10% of the 30,000 HB/CTB fraud sanctions could newly be undertaken jointly (currently around 20% are conducted jointly).
- o A relatively low assumption for the Future Overpayments Prevented of £200 has been taken for HB because of a separate project which seeks to provide a level of automation in this field. £200 is equivalent to average HB payments of £80 for 2.5 weeks where overpayment durations are typically closer to a year in length.
- o Savings have been reduced by 9% to take account of an estimated 160 fraud investigators staff to support new case cleanse activity announced in the strategy, Tackling Fraud and Error in the benefit and tax credits systems.

18. II) Extra DWP savings = 27.6k \* 10% \* 1000 = £2.8m

- It is assumed that an extra 10% of the current 27k LA sanctions will be newly sanctioned with DWP details taken into account.
- The impact of existing LA activity, for those customers on DWP benefits, on the level of DWP benefits is conservatively assumed to be £1000 for the Future Overpayments Prevented.

III), IV) and V) Tax Credit benefits from existing DWP activity and LA activity  
 19. Table 3 below summarises the impact on Tax Credits from existing DWP and LA activity.

**Table 3 Estimated Tax Credit savings**

| <b>Measure</b>   | <b>DWP fraud activity</b> | <b>DWP non-fraud activity</b> | <b>LAs</b> | <b>Source</b>  |
|--|---------------------------|-------------------------------|------------|--|
| 1. Volumes (sanctions or overpayments) rounded to nearest 1000 | 31,000                    | 88,000                        | 22,000     | FRAIMS database 2009/10 (DWP), secondary analysis of National Statistics on benefit fraud and error 2008/09 (DWP non-fraud activity), and LA administrative returns. |
| 2. Percentage of customers on Tax Credit                       | 20%                       | 20%                           | 16%        | Information Directorate Experimental statistics for DWP, and secondary analysis of LA data 2010/11 (the Single Housing Benefit Extract)                              |
| 3. Assumed percentage of overpayments                          | 25%                       | 25%                           | 25%        | Assumption   |
| 4. Implied volume  | 5.0%                      | 5.0%                          | 4.0%       | Derived: Row   |



|  |           |            |           |  |
|--|-----------|------------|-----------|--|
|  |           |            |           | 2 * Row 3                              |
| 5. Average Tax Credit overpayments                         | 6000      | 6000       | 6000      | Based on HMRC information on sanctions |
| 6. Total Tax Credit overpayments reduced (nearest 100,000) | 9,200,000 | 26,300,000 | 5,300,000 | Derived: Row 1* Row 4* Row 5           |

Footnote: figures may not sum due to rounding

## Summary

20. Hence table 2 shows the estimated net impact of these changes will be approximately £50m per annum.

21. An assumed profile of how each of the savings will be phased in up to 100% realisation is as follows.

**Table 4: profile of percentage realisation of assumed savings over time**

|             | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|-------------|---------|---------|---------|---------|---------|---------|
| HMRC        | 0%      | 0%      | 0%      | 33%     | 80%     | 100%    |
| LA/DWP only | 0%      | 0%      | 80%     | 100%    | 100%    | 100%    |

22. The impact of activity will not all occur in the year the activity took place because some overpayments would have continued beyond the financial year had the intervention not occurred. The following table applies the realisation profile in table 4 and allocates savings to the correct financial year.

**Table 5: Total costs and savings and net impact with money represented in Present Value- (£m)**

| Administrative costs and savings | 2011/12 | 2012/13 | 2013/14 | 2014/15 | Total   |
|----------------------------------|---------|---------|---------|---------|---------|
| Costs                            | £0.0m   | £12.5m  | £20.0m  | £5.7m   | £38.2m  |
| Savings                          | £0.0m   | £0.0m   | £4.9m   | £17.5m  | £22.4m  |
| Net                              | £0.0m   | -£12.5m | -£15.1m | £11.8m  | -£15.8m |

## Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

|  |
|--|
| <p><b>Basis of the review:</b> No policy review is planned. This is an internal re-organisation to optimise performance. However management information reporting on the success of the project will be set up in near-real time, and the Fraud and Error Council will take an ongoing view on the effectiveness of the delivery arms of the fraud and error strategy.</p>   |
| <p><b>Review objective:</b><br/>To be able to report whether stated savings have been met.</p>   |
| <p><b>Review approach and rationale:</b><br/>FRAIMS (DWP's fraud referral system) currently holds information on detected overpayments through the fraud route. This will be the mainstay of future reporting – or its successor.</p> <p>MI will be supplemented by secondary analysis to take into account the impact of overpayments prevented from occurring in the future.</p>   |
| <p><b>Baseline:</b><br/>2009/10 estimates of detected overpayments of £142.0m</p>  |
| <p><b>Success criteria:</b></p> <ul style="list-style-type: none"> <li>- The silo based organisations under one umbrella group</li> <li>- savings achieved</li> <li>- Improved return on investment</li> <li>- Increased sanctions</li> </ul> <p>The precise level of these has yet to be determined. The forum to do this is the post strategy implementation strand working to the fraud and error work programme.</p>   |
| <p><b>Monitoring information arrangements:</b><br/>The fraud and error strategy has been agreed as a priority with HMT via People Performance Management (PPM). As such, all projects subject to funding will be reported on a regular basis.</p> <p>Management Information is currently recorded on the outcome of activity. The currency will be the same under SFIS and there will be a direct read across in terms of amounts detected. The future value of overpayments prevented will be estimated using standard in-house techniques.</p> |

**Reasons for not planning a PIR:**

This intervention moves already existing fraud investigatory powers from various bodies into DWP, and enables organisational redesign. It is not, strictly speaking, a new policy. The effectiveness and impact of the Single Fraud Investigation Service will be monitored in DWP annual reports and business plans.